Robert Reich on mistrust and the decline of American capitalism
Gregg Easterbrook gives shopping tips to the Pentagon
Plus: The case for the $435 hammer

The Washington Monthly

JANUARY 1987/$3.00

WHAT'S WRONG WITH CHARITIES

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LETTERS

Self service

It is not surprising that the idea of national service keeps resurfacing ["We Need You," Timothy Noah, November]. In theory, it is an attractive notion—at least to those of us who view with alarm the increasing fractionalization of our society and tend to deplore a diminishing commitment to social service among America's young. Unfortunately, I see no way that universal service can work; the numbers are simply too vast.

Noah points out that about 3.5 million Americans turn 18 every year and cites estimates that to put this number to work, either in the military or in civilian jobs—a daunting task—would cost $30 billion. Yes, and shrimp will whistle, as Comrade Khrushchev used to say. It is absurd to think that a program such as the one outlined by Mr. Noah can be implemented at a cost of $8,600 a head ($30 billion divided by 3.5 million). The infrastructure to process, train, find jobs for, house, feed, clothe, travel, supervise—we are speaking of 18-year-olds here—provide medical care for, give pocket money to, 3,500,000 people a year would need to be so huge that it defies contemplation. And while you might get away with paying next to nothing to the conscripts, you can bet that the bureaucrats and their contractors would not consent to be paid in beans. My guess, based on almost seven years' staff experience with the Peace Corps and VISTA during the sixties, is that the $30 billion figure—itself staggering, given today's realities—is too low by at least half.

There are other things wrong with the concept. Those who work on America's roads and bridges, for instance, will not sit still while their jobs are taken by low-paid, 18-year-old conscripts. The answer, I think, lies not in universal service, but in bringing back a military draft—how my sons will hate me for saying so—in expanding existing opportunities for voluntary service, and in creating new ones. But the time is not now. If social scientists and historians are right in believing that this country is subject to 30-year cycles, we are due for another decade of social concern in the nineties. I hope I am around to see it.

ALBERT MEISEL
Chevy Chase, Maryland

Timothy Noah is right about one thing: "...compulsory national service can only happen if it is enacted by Congress, by the representatives we elect."

I trust the electorate can see beyond the good but muddled intentions Noah advances in support of compulsory national service. Imagine the size of the bureaucracy needed to carry out such a scheme, let alone its cost. Look at only one of the propositions always set forth unrealistically by the national service claque: that almost any 17- to 20-year-old, with minimum (or no) training in the care, development, and education of young children, can provide "quality care" for the kids of the "average working" mother.

Today, at a basic community level, *voluntary*, short-term care experience can succeed if it involves actual training for young people in situations where local connections serve both volunteers and clients—the young, or the handicapped, or the elderly.

I suggest that for the same federal outlay (Mr. Noah provides no cost estimates) required to set up the non-military side of national service, cities and states could effectively help young people to support themselves while attending six-month to two-year training colleges at up-to-date technical colleges of superior quality—or, for that matter, at any college with a curriculum the young person needs and is qualified to do. *If* honest-to-goodness, excellent skills training in the service and technologies were available, coordinated by public and private sectors where possible, you would see eager attendees from all social groups.

That's the big "if" we—and the Bill Bradleys, Gary Harts, and Bruce Babbitts—should be working on. It's the democratic approach, and its time is long overdue.

ELEANOR R. SEAGRAVES
Washington, D.C.

One national service proposal I have heard about before that Timothy Noah failed to mention is the idea of imposing some period of national service on all of us aged 18-49—not just on today's 18-year-olds. People could do their service all at once, or in smaller chunks, earning time "credits" from existing volunteer and community organizations. Costs for program administration could be held to levels similar to Noah's proposal by paying *only the 18-year-olds* who entered service for a year; everyone else would be asked to work for free, perhaps for less time based on some age formula.

This approach would avoid the unfairness issue (raised by both Jack Kemp and *The Progressive*) of forcing today's 18-year-olds to do service right away in cases where they would rather pursue other goals and serve later. It would also better meet the important test of ensuring, in Noah's own words, "participation by all segments of the population"—including those who missed (and now lament) the chance to serve the nation in some capacity earlier.

DAN CAROL
Takoma Park, Maryland

Timothy Noah and I have a basic difference of opinion. He thinks it's perfectly okay—indeed, *desirable*—for the government to come along in 2002 and claim my son's life for a couple of years. That's the essence, to me, of his article. He thinks the government should be able to come and take my son and make him paint a New York subway train or minister to an elderly Republican or help to produce cheap steel or—no less calmly—make him kill Sandinistas or whoever the bad guys are in 2002. I don't think that's perfectly okay.

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I think it's perfectly un-American.

"National service" has a nice ring to it. Surely serving one's country is a noble, character-building, and important endeavor. But we have a national service system in place now, a voluntary service system ranging from the Marines to the Peace Corps. Perhaps our country needs a national leadership that will inspire our youth of all social classes to participate in it. Perhaps our country's parents should give their children more encouragement to participate in it. Perhaps we need even more colleges and universities to grant, say, 30 semester hours of credit for a year of participation. But we don't need to give our government license to drag off sons and fathers and brothers—not to mention daughters, mothers, and sisters—from their homes, against their will, to do whatever good or evil deeds the government sees as fitting.

When I was in college and the "compulsory national service" of the era was sending kids off to die for no good reason in Vietnam, the chant in the streets was "Hell no, we won't go." Well, hell no, you can't have my son, either.

GREG TODD
Carlisle, Pennsylvania

Since today's armed forces are neither so socially unrepresentative, nor so expensive, as Noah argues, national service comes to seem as a solution looking for problems.

The socio-economic distribution of enlisted recruits generally falls between the distribution of all 16- to 21-year-old males not enrolled in school. By this measure, the military is getting a reasonably representative sample of the nation's youth. Moreover, critics tend to ignore the role of the officer corps, which draws 20,000 highly educated, predominantly white, middle-class men and women into the service every year.

In one key sense, the military is highly unrepresentative of America's youth—quality. Over the last few years, the quality of enlisted recruits has reached unprecedented highs, notably in the Army and Marine Corps. Back in 1971, a draft-lottery year, only 43 percent of the Marines' enlisted recruits held high school diplomas, and 20 percent were in the lowest acceptable mental category; 67 percent of the Army's recruits were high school graduates, and 25 percent were in the lowest mental category. In 1986, the Army and Marine Corps together enlisted more than 90 percent high school graduates, and fewer than 5 percent in the bottom mental category.

Much of the thanks for today's high quality goes to higher military pay, of which Noah seems to disapprove. Cutting soldiers' pay under a program of national service would of course save money, but at the risk of diminishing the armed forces' capability. Higher military pay has not so much attracted more married men—fewer than one enlisted recruit out of seven is married—as it has convinced experienced men and women to make a career out of the military. The result, proportionately more trained and highly productive

The Washington Monthly

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Subscription rates: U.S. and possessions: one year, $33; two years, $58; three years, $79. Additional charges per year, foreign subscriptions: Canada, $3; other, $25 air mail, $3 surface mail. Back issues, $3. Send all remittances and correspondence concerning subscriptions, undelivered copies, and changes of address to 1711 Connecticut Ave., N.W., Washington, D.C., 20009. For change of address, please provide four weeks' notice and return old address label. New subscriptions only: 1-800-341-1522.
The Washington Monthly is indexed in the Book Review Index, Political Science Abstracts, Public Affairs Information Service, the Readers' Guide to Periodical Literature, the Social Science Index, and Ulrich's International Periodicals Directory, and may be obtained on microfilm from University Microfilms International, Ann Arbor, Michigan, 48106.
Unsolicited manuscripts must be accompanied by a stamped, self-addressed envelope.
Published monthly except combined July/August issue by The Washington Monthly Company, 1711 Connecticut Ave. N.W., Washington, D.C. 20009 (202) 462-0128.

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ISSN 0043-0633.
Postmaster: Send form 3579 to The Washington Monthly, 1711 Connecticut Ave. N.W., Washington, D.C. 20009.
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career personnel on active duty. Whereas the Army had fewer than 220,000 career personnel in 1974 (the advent of the all-volunteer force), it has about 305,000 such personnel today, even though its overall force is smaller.

Together, high levels of quality and experience make for a more capable military force. A program of national service that returned to draft-era pay levels and a lottery draft could not help but lower today's levels.

JOEL SLACKMAN
Washington, D.C.

No fair choosing everybody's favorite whipping boy, David Stockman, as an example of a "prominent American" who dodged the draft by going to divinity school.

Why not make it tougher on your thesis by mentioning Gary Hart? Sure, he's a big backer of compulsory national service now that he's safely in his middle years. But back when there was a draft he was in Yale Divinity School (1961) *and* Yale Law School (1964), deferring himself right past the maximum age.

By the way, in those days he knew exactly how old he was and didn't try to convince Selective Service he was born in 1937 instead of 1936.

PETER C. BLAKE
Aurora, Colorado

Timothy Noah replies:

I stand by the $30 billion price tag, which includes the infrastructure Albert Meisel seems to think I left out. I refer him to *National Service: What It Would Mean* by Richard Danzig and Peter Szanton for the details. To be sure, Danzig and Szanton do not take into account possible attempts by bureaucrats and contractors to get rich off national service, or the importunings of construction workers who don't want to see low-paid 18-year-olds working on roads and bridges that aren't being repaired today because of Davis-Bacon. But we all have an interest in getting vital work done and in promoting a spirit of service. It's reasonable to expect that these factions can come to recognize that.

Joel Slackman points out that the socio-economic distribution of enlisted recruits in the military falls between the distribution of all 16- to 21-year-old males not enrolled in school. But take a close look at those last four words. Those not enrolled in school in that age group are likeliest to end up poor. So it's not a fair sampling. Slackman also points to the quality of today's recruits compared to those in 1971, a "draft-lottery year." But as I made clear in my article, the Vietnam draft was far from ideal; it exempted college students. I believe a draft can be established that will not exempt college students—on the model of the World War II draft. As for Slackman's argument that higher military pay in the All Volunteer Service has bought us a more experienced workforce, that may be so—but it has also helped promote a more civilianized service, the sense that being a soldier is "just another job."

The spiritual desert

I noted Mr. Peters's disparaging, perhaps insulting, remarks concerning my "spiritual desert" of a lifestyle based on a quote of mine that appeared in a *Newsweek* article about couples who decide not to have children ["Tilting at Windmills," October].

I find it remarkably pretentious for him to make a value decision as to the correctness or moral validity of the way I choose to live my life. Who the heck is he to portray my lifestyle as being part of a wasteland? Indeed, today, upwards of 50 percent of babies are unplanned. Are the parents of these children to be commended? Are they prepared to raise their children to be assets to society? Is their choice, or lack of it, somehow morally better than mine? Spiritual desert indeed!

Regardless of his high falutin' morality, Peters, like the rest of us all, does things for selfish reasons. Our rewards may differ but it all boils down to doing what most satisfies our physical, mental, egotistical, material, moral, philosophical, or other needs. Those needs vary from person to person but if filling them is selfish then we are all guilty. I have no duty to satisfy his vision of the right way to live my life just as I would never suggest that someone's choice to have "excess" children was somehow morally incorrect and bound to lead to famine and pestilence.

HAROLD GOLDSTEIN
Washington, D.C.

A better idea

I am writing in response to your rave on Senator Albert Gore ["The Longest Shot," John Eisendrath, November]. It sounded pretty good until you got to the all-important subject of the nuclear arms race.

Fortunately there are some senators and representatives who have taken on the chore of studying nuclear arms. Mastering the facts, however, does not mean that you get good judgment.

What you often get with people who take on the responsibility of bringing their level of knowledge up to that of professional nuclear strategists is a desire to be "reasonable" and to modify rather than to actually stop the nuclear arms race and first strike weapons. So you get people like Gore, Aspin, and Nunn trying to save the first strike MX and the much more powerful first strike Trident D-5 missile system. Some stability.

The Midgetman has some merit. But a much more effective, simpler, and cheaper approach would be a bilateral moratorium on nuclear warhead testing and ballistic missile flight testing. This would block the R & D necessary for new first strike weapons as well as result in decreased reliability of existing Soviet and American missiles over time, high levels of reliability being important for first strike but not for retaliation.

CHARLES MINTON
Arcata, California

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Admiral Plunkett

Consider the likely possibility that Napoleon McCallum, while hustling down the sideline carrying the football, was cut down by a Washington Redskin defender and broke a leg ["Tilting at Windmills," November].

Was Tom Flores, coach of the Raiders, prepared to send a back-up to stand watch on McCallum's ship in San Diego Harbor? Or perhaps Secretary of the Navy Lehman has a back-up game plan designed for an AWOL situation.

NORMAN L. KAUTSKY

Compromising positions

Your October issue reveals the agonies of the magazine business. Susan Milligan asks some very penetrating questions about the decline in journalistic quality at *Ms.* magazine ["Has *Ms.* Undergone a Sex Change?"]. How apparent it is that the pioneering journalism of years ago has incrementally slipped into being little more than a yuppie fluff magazine at the mercy of its advertisers, with its pages "perfumed with the cloying sweetness of Calvin Klein's 'Obsession.' "

I fear that *The Washington Monthly* has fallen victim to the same disease. Gregg Easterbrook's paean of praise for Ford's Donald Petersen ["Have You Driven A Ford Lately?" October] is unrelenting in its cloying puffery, exceeding any PR man's greatest dream. The title is unashamedly lifted from a common Ford advertising slogan. Easterbrook commends Ford for replacing the old Dullsville cars with "sporty cars that attract young buyers." Sounds like yuppies to me. And the final journalistic compromise is the back cover of the same issue: a paid advertisement by the Ford Motor Company.

Nowhere in Easterbrook's article is there any real sense of balance. One is left with the impression that Ford is doing *everything* right, as if he bought Ford's positive pitch hook, line, and sinker. There is no evidence that he looked to see whether there are old problems that still remain.

I do have a suggestion: if *Ms.* is a prisoner of its advertisers and *The Washington Monthly* is a prisoner of your own, why not get them to police you like you have criticized them? As long as there is not too much of an overlap in advertisers, this arrangement might help limit the inducement of journalists to become whores.

STEPHEN H. KAISER
Cambridge, Massachusetts

Gregg Easterbrook did a good job in his tribute to Ford and Donald Petersen. It's true, Dr. Edwards Deming introduced statistical process control to U.S. industry. It was tried at Ford and rejected because it was then a manual process and too slow. Dr. Deming did go to Japan with his gospel. He was heard and we know the results of that.

What was omitted in the article was the sequel to that story. When Don Petersen became president, he invited Deming back to Ford. He sponsored Deming's lectures and Deming's training for Ford employees and vendors. More than that, he purchased and installed small, specialized computers that quickly create the charts needed to statistically control production processes. He made sure that Ford vendors did too. The results have been dramatic reductions in scrap costs and a new quality image for Ford, i.e., best quality ratings for U.S.-built cars several years running.

HERBERT C. JOHNSON
Minnetonka, Minnesota

Gregg Easterbrook replies:

Readers today are programmed to assume serious journalism must be negative. If a situation is good, what's wrong with saying so with the same assurance that would be used to condemn a situation that's bad? And with being enthusiastic to the same degree one would be resolutely critical when expositing a screw-up? If the worst Mr. Kaiser can say about Ford is that it courts yuppie consumers and picks dumb names—the article by the way made fun of "Merkur" —that to me sounds like praising with faint damnation. I agree with Mr. Kaiser about the title and wish the *Monthly*'s editors had picked something different.

See "Tilting at Windmills" for Charles Peters's response.

OOPS: In editing Jonathan Rowe's review last month of *The Rise of the Counter-Establishment*, by Sidney Blumenthal, we inadvertently replaced the word "pervasive" with "persuasive" in a sentence that should have read, "With all the commotion over secular humanism, the silence concerning its most pervasive form—secular humanist economics—is strange indeed."

Long necks, thick fingers

I am a member of the Junior League of Washington, D.C., and can assure Charles Peters ["Tilting at Windmills," October] that I haven't even one ounce of blue blood coursing through my veins. My admission to the League had nothing to do with my race, creed, color, dress size, dress labels, nor did it hinge on my daddy or my husband (who are both "nobodies" by social snobbery standards). Through the League, I have met a lot of other "nobodies" who all have the common desire to be a contributing member, an active member, within the D.C. community.

True, we do still throw the occasional fashion show—but let's face it, fashion shows are effective fund-raising vehicles, or we wouldn't have them. I daresay the ends of community support and involvement justify the "fashionable" means.

JOAN E. HEALONG
Arlington, Virginia

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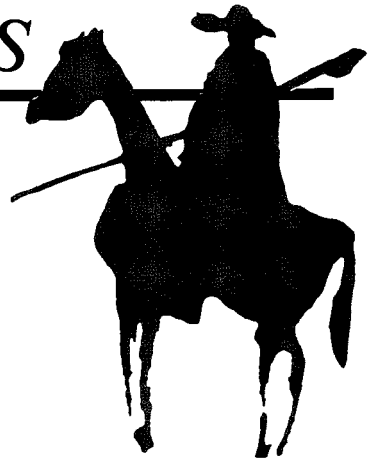
TILTING AT WINDMILLS



There are four reasons why I strongly suspect that Reagan will not recover from Irangate. The press now smells blood and will aggressively pursue any hint of scandal. Many stones they overturn will have nothing under them, but they will find enough dirt to keep the administration's reputation thoroughly soiled. In addition, because there are only two years left to the term, reporters are beginning to be less protective of their sources. Jack Anderson once noted that a reporter would turn against a source only when he had more dirt on the source than the source had to give to the reporter. For many of the Reaganites, that time either has arrived or is coming soon.

The third reason is that Reagan will have an increasingly difficult time attracting good people willing to work hard. Who wants to work for an administration on its last leg, when it's a wobbly leg at that? It will, of course, fill the top slots, but most likely with over-the-hill types more interested in having distinguished titles to cap their listings in "Who's Who" than in doing real work.

The fourth reason is that as the administration goes into its last two years, even its most dedicated members start casting an eye to the future and begin to worry less about their work and more about polishing their resumes and calling up old friends to see what might be available on the outside....

One news commentator after another solemnly assures us, "If they take the Fifth, we shouldn't conclude they are guilty." Why shouldn't we? There is absolutely nothing wrong with members of the general public inferring guilt from an invocation of the Fifth Amendment. Judge and jurors are forbidden to do so because of the theoretical possibility of torture, but when the rest of us know that torture is not a factor, we are correct in concluding that the witness is taking the Fifth because he is afraid of going to jail because of what his testimony would reveal....

When Donald Regan asked, "Does a bank president know whether a teller is fiddling with his books?" and answered, "No," he revealed that he is unfit to be chief of staff at the White House and that his apparent success at Merrill Lynch must have been based on abundance of good luck, for if a bank president doesn't know what his tellers are doing, he is in danger of waking up one morning to find that his bank doesn't have any money. In the White House, this truth applies with special force. Frustrated presidents are quite likely to explode with orders such as, "I don't care how you do it, just get it done," which heel-clicking subordinates are equally likely to execute in ways that could bring ruin on the administration. It is therefore essential that the president and his chief of staff take special care to learn how such instructions are being carried out....

When network executives speculate about the low ratings of their nightly news programs, one explanation they offer is that the news is depressing, that people don't enjoy being reminded that the world is falling apart.

I think the real reason is that they don't enjoy being reminded that *they* are falling apart. It is the content of the commercials, not the news, that is the problem.

Because a large number of senior citizens watch the news, many, if not most, of the commercials are addressed to them.

On just one recent news program, there were plugs for a bran cereal that restores regularity, for a garment that solves bladder control problems, and for a substance that causes dentures to adhere to the gums. These messages do little to enhance the self-image of the audience. You may be 60, but you don't want to be reminded of it. Think how much better we

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would all feel if the ads were for surfboards and Club Med instead of Fasteeth and Preparation H....

Schizophrenia is the most common mental disease. Its victims occupy half of the beds in this country's psychiatric hospitals. On the outside they constitute almost as large a share of those people we call "the homeless." Yet since 1980 the National Institute of Mental Health (NIMH) has spent less that 10 percent of its budget on research related to schizophrenia. What has it spent the rest of the money on? What studies did it deem more urgent? E. Fuller Torrey, a Washington psychiatrist, looked into this matter and found that the following studies have been funded by the NIMH:

- Training Student Leaders for Changes on Campus.
- The Impact of Religious Belief on Voting Behavior.
- Tenant Organization: Mobilization and Consequences.
- Self-Regulation in Altruism....

I have always been an advocate of getting academics out of the Ivory Tower and exposing them to some practical experience. But Paul Stewart, an instructor in criminal justice at the University of Nebraska's Omaha campus, may have subscribed a bit too enthusiastically to my advice. On October 28, he was arrested for burglary. When police checked his files, they found that under other names, he had eight prior felony arrests....

Another fellow who may have carried my advice too far is Jeffrey Nightbyrd of Austin, Texas. I have always been an advocate of the entreprenuer who sees an opening in the market and has the creativity to fill the need with a new product, which is exactly what Nightbyrd has done. His company is meeting a growing demand from such groups as professional athletes by selling drug-free urine for $49.95 a bag....

If you create the appearance of a conflict of interest, you have to be prepared for some people to assume that the conflict is real. We created such an appearance by publishing a favorable article about Ford in an issue that also carried a paid advertisement from Ford on its back cover.

I can assure you, however, that the editorial content of *The Washington Monthly* has never been influenced by the prospect of gaining or losing an advertisement. In this case, we had the contract for the ad before we got the article. The article came to us not because we had commissioned it, but because a respected former colleague, Gregg Easterbrook, brought it to us in finished form and it fit the pattern of concerns that we had earlier displayed in Kitry Krause's article on Honda in our July/August issue.

The only changes we asked that Gregg make in the article were to toughen the criticism of Ford's president, Donald Petersen, for his excessive salary, and to concede that there were still some Ford plants that were

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run little differently than they had been in the dark ages of the industry. In other words, in our hands the article got tougher, not kinder. It is also interesting to note that not long after Gregg's article appeared, both *Newsweek* and *Time*, in their November 24 issues, came to pretty much the same conclusions Gregg had. In fact, an editor of *Newsweek* called to assure me that they hadn't stolen the article from us. He would not have called had there not been enough similarity to arouse suspicion. Of course, I guess some people will argue that all this means is that *Time* and *Newsweek* are on the take too. So we're back where we began. If you create the appearance of a conflict-of-interest you have to be prepared to take some criticism....

For this reason, we don't think we have a right to be careless about appearances. Finally, we must, of course, do what we think is right regardless of how it looks, but if we can avoid the appearance of evil, we should try to do so. This is why I was at first relieved that a recent ad for Philip Morris came in too late for us to publish. For if we had run it, I know it would have disturbed many of our readers who had been used to our railing against cigarette ads and would assume we must have finally sold out to the tobacco industry.

But, even though it would have been embarrassing to do so, I think we should have run the ad if it had come in on time. The kind of cigarette ad we have opposed and never solicited is the one that makes smoking glamorous. We should publish, if not solicit, the kind of ad Philip Morris submitted. It argued that, on free speech grounds, cigarette ads should not be abolished. While I think the glamour ads should be outlawed, I do defend the cigarette manufacturer's right to argue the opposite case. That *is* a free speech right. If we are asked to run such an ad again we will do so....

Do you recall that when the Boesky scandal was revealed in November, the stock market plunged downward for two days? Then it recovered all the ground it had lost in the next three days. I have an explanation. When the story first broke, everyone on Wall Street said "My God, this is going to be terrible. We're all involved." Then, after chewing on this thought for a couple of days, they said to themselves, "If we're all involved, what can the government do? They can't put us all in jail."

The solution to takeovers is to outlaw their financing by bonds issued after the acquisition. Another company may have the funds to finance a takeover on its own, but don't let the financing be done on the basis of the value of the acquired company.

The same argument applies to leveraged buy-outs by the company's management. How can a company be in better shape if it has to take on the burden of paying off a large debt to in effect pay for itself?

Another way to reform Wall Street is to tax, as Warren Buffett suggests, at 100 percent capital gains on stocks held less than a year. This would put an end to short-term speculation which is the largest single root of evil on Wall Street....

Somebody tells you blacks are lazy and you try to argue. If you point to successful blacks in government or business, the person will remain unconvinced; anyone who really believes blacks are lazy undoubtedly also thinks their achievements are either the exceptions that prove the rule or are due to patronage or affirmative action. But try this. Ask him if he's a sports fan. If he is, you've got him, because, if he is honest, he will have to concede that black athletes work just as hard as whites do. The reason is instructive. It is that in sports blacks know they will be judged on their performance. If they have the ability and make the effort, their chances for success are roughly equal to those of whites. This is simply not true in other fields. It may be coming close to being true for the children of middle- and upper-class blacks, but not for blacks from the ghetto. If we expect them to make an effort in areas other than sports, we should show them that the effort has a fair chance of being rewarded. For one thing, this should mean that any black who manages to graduate from high school should be guaranteed a chance to go to college.

A young man who works in our office and read the foregoing said to me "Don't they know that anyone who really wants to go to college can manage it one way or

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another?" This is what I have learned to call "country club wisdom" meaning that it shows sublime ignorance of the reality of the lives of the poor. What some sophisticated senior at an elite suburban high school knows is not known by the ghetto 16-year-old.

The reason for the problems of ghetto youth are, of course, complex, and need to be attacked in a variety of ways. But I am confident that the most important of these is to make clear to the kid that he will have a fair chance....

I continue to be able to restrain my admiration for John Lehman, the secretary of the Navy, and am pleased to report that in at least one respect the Inspector General of the Department of Defense shares my feelings. He has issued a report rebuking Lehman and other Navy officials for putting pressure on Raytheon, a large defense contractor, to stop one of its executives from criticizing the military. The executive, Lawrence Korb, was actually fired by Raytheon last month after the company received an angry call from one of Lehman's assistants.

By the way, guess who originally recommended Col. North to the White House? John Lehman, of course....

Ronald Reagan has presented us with a fine assortment of clowns, crooks, and borderline talents. In this connection, did you happen to read about Anthony T. Bouscharen, one of the president's nominees to the National Council on the Humanities? In 1981, he published an article in *Human Events* which, except for one paragraph, was by curious coincidence identical to one published earlier in *Commentary* by Walter Laqueur....

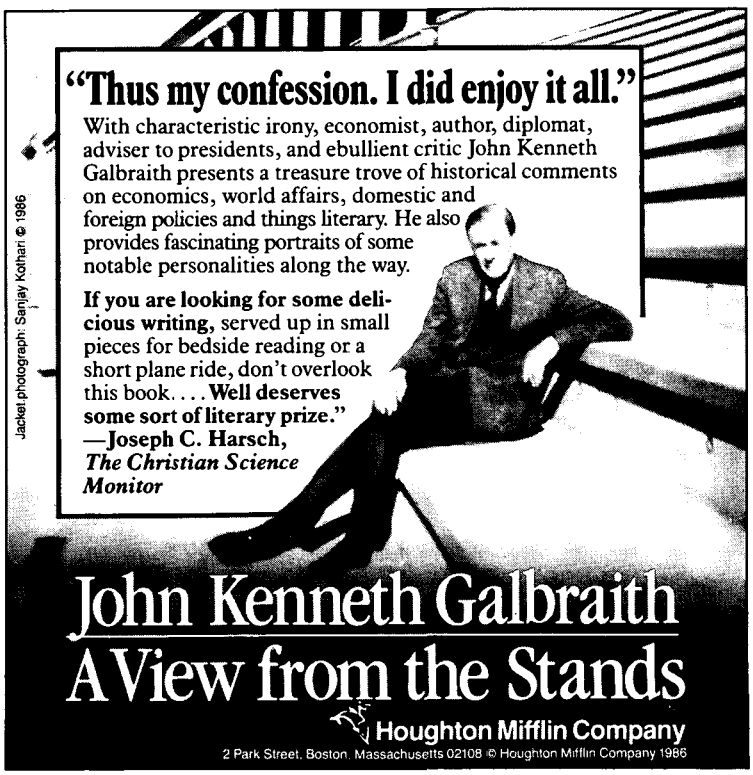
Fourteen years ago in our concern over the decline in the spirit of entrepreneurship, we wrote "In the culture of liberal idealism an urban planning consultancy is looked on as a desirable occupation while being a building contractor is viewed as comparatively base."

You will then understand my delight at a recent article in *The Wall Street Journal* which ran under this headline: "Do as I Do: More Consultants Quit Profession to Start New Businesses," and which contained this comment:

" 'You don't get a lot of oohs and ahs at a party if you say you are a consultant,' says an ex-consultant. 'If you say you are an entrepreneur, people ooh and ah.' "

While I'm pleased that the entrepreneur has become glamorous again, I worry it's just because he takes risks to make lots of money, not because he takes risks to make a good product at a fair price and creates new jobs, which is the reason he should be admired....

In November I had a chance to spend a week in my hometown, Charleston, West Virginia, and was reminded of a fact that makes the city almost unique in modern America: it has two papers, *The Gazette* and *The Daily Mail*, one morning, one afternoon, one liberal-Democratic, the other



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conservative-Republican. While they have the same printing plant and business staff, they are separately owned and vigorously competitive editorially. Both are good papers. Does such a happy situation exist anywhere else in the country?

I had forgotten how much I liked coming home at the end of the day to find the afternoon paper at my door, and to look forward to a quiet time reading it before dinner. We haven't had one in Washington since the *Star* folded in 1981. Of course, the situation I enjoyed most was the one in New York of my student days at Columbia in the forties. There we had four afternoon papers, the *World-Telegram*, the *Post*, the *Sun*, and the *Journal-American*. This feast was only interrupted by the night, for in the morning we could turn to the *Times*, the *Herald-Tribune*, the *Mirror*, the *News*, and, my favorite, a lovely left-wing tabloid called *PM*. I bought them all everyday. If that sounds extravagant, they cost anywhere from two to five cents each.

West Virginia is especially fortunate to have papers like the *Gazette* and *Mail* because it needs them more than most states. Its level of public morality is so low that crusading newspapers are a vital necessity. To give just a few examples that came to my attention that week: A Huntington lawyer was found to have billed the Legal Service Council for 75 hours' work in a single day and for 880 miles of travel on that same day for driving to a courthouse 20 miles from his home. A prominent political supporter of the governor was found to have received a state loan of $455,000 and to be leasing offices to state agencies for $7,100 a month. Another supporter of the governor, who was rewarded with a nomination to be the state's energy commissioner, revealed during his confirmation hearings that he had given $18,200 to the governor's campaign. Legislators were curious as to how this was done since the state law forbids anyone to give more than $1,000 per candidate, per election. Among the explanations the commissioner gave was that his six-year-old son made two $1,000 donations from his birthday money.

Such scandals are common, in West Virginia and seven other states: Louisiana, Kentucky, Tennessee, Massachusetts, New Jersey, Nevada, and Illinois. Why is it that these states are especially susceptible to corruption? In West Virginia, I have always suspected that one factor is its long-time status as an economic colony, the continuing victim of exploitation by giant coal companies. People who are being taken to the cleaner themselves usually don't find it difficult to do the same unto others. In any event, there must be some brilliant anthropologist, who will take on the task of figuring out why these eight states are so much more crooked than the rest.

One of the local scandals was, however, not of the kind that tend to be confined to the notorious eight. It concerned the closing of the federal parking lot in Charleston, which previously had been reserved for federal employees during the day, but it was at least open to the public at night. Now the lot is being closed to the public even then. The *Gazette* observed that "these parking places were and are paid for by the public, few of whose numbers enjoy parking spaces reserved for them." "Why not, then," the *Gazette* continued, "when the Federal Building's parking spaces aren't filled, which is practically every Saturday and Sunday, most holidays and in evening hours the year around, permit the public to park in them?"

The question is simple and the answer represents a problem that I think is worse than corruption—the indifference of civil servants to the public, of which the parking lot is a minor but telling indication.

Here in Washington, the Smithsonian, which has 20 million visitors annually, has recently restricted its parking spaces to use by its employees only. An official said the steps were taken as a precaution against terrorists. Although he conceded that no threats had been received, he explained that "in light of continuing and totally unpredictable international incidents around the world, this step is necessary as a reasonable and prudent precaution."

You have to be a real fool to swallow this one. My guess is that the fellows were sitting around a table discussing terrorism when someone's brain lit up with, "My God, this could solve the employee parking problem." Anyone who has served in a government agency in Washington knows that next to protecting and

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expanding their salaries and benefits, no issue arouses such passion among government employees as dividing up the available parking places. I know this sounds absurd, but it is, alas, the precise truth.

But I'm glad to report that there is at last one federal facility where the public *can* park. It is the Beverly Hills Post Office. And it doesn't have plain old parking, it has valet parking at $1.50 an hour with a validation stamp, $4.00 otherwise....

For years we have been hoping *The Washington Post* would take a stand against Marion Barry, who seems to have dedicated himself to personally adding the District of Columbia to those eight states. This summer it seemed that sleeping giant had finally awakened. The *Post* was filled with exposes of the District government, culminating in a major article in August that pulled all the scandals together.

But then in September the *Post*'s new magazine enraged all of black Washington by arguing that a store owner had a right to keep blacks out in order to prevent crime. The angry reaction to the magazine seemed to cause the *Post* to pull back from the Barry story. It reminded me of October 1972 when, three weeks before the election, Woodward and Bernstein made a minor misquotation of Hugh Sloan and the *Post* then retreated from the entire Watergate story until President Nixon had been re-elected.

This was dismaying to those of us who opposed Nixon then, just as the retreat on Barry was dismaying this fall. The *Post* even ran an editorial endorsing Barry. Are the Grahams worried about having their real estate assessment raised by the city? Does Meg Greenfield fear her car will be booted? Or did the *Post* commit one wrong to atone for another?...

Jim Wright deserves praise for urging that the top tax bracket be kept at 38.5 percent after this year, instead of allowing it to drop to 28 percent as scheduled. We have not been uncritical of the new speaker, but on this issue, he is absolutely right and we hope he will stick to his position in the face of all the flak that he has already begun to get.

One fact that few outsiders understand about the civil service is that the pay isn't all that bad and the benefits are quite a bit better than most of the rest of us enjoy. In an ad headlined "Federal Jobs $12,862-$72,300," the *Federal Job Digest* says the "benefits and job security are quite outstanding."

"For example," continues the ad, "as a new federal employee you receive virtually automatic annual pay increases plus cost-of-living increases. In addition, in many positions you are eligible for merit bonuses. Excellent hospital, medical, and life insurance coverage is available. You are part of a generous pension and early retirement program. And you are given lengthy vacations—13 working days the very first year plus 13 paid sick days and all federal holidays.".. .

On November 24, as I was watching the NBC Nightly News and sipping my Geritol, I was alarmed to see a report on anti-submarine weapons that indicated the Navy was prepared to use nuclear depth charges in order to protect its carriers from attack. We shouldn't have these giant sitting ducks in the first place. To start a nuclear war to protect them is the ultimate insanity. I hope Congress will investigate....

Endless mind-numbing meetings have become the leading hazard of modern organizational life. Bureaucrats, both corporate and governmental, feel they have to attend because other people will think they have lost status, or try to infringe on their turf, or propose them as the most worthy victims of a budget cut. The same reasons for attending the meeting make leaving before it's over unwise. The minute you're out the door, someone might say, "I think it's time we take a look at George's operation." So no matter how desperate you may be to get out of there, you know you have to stick it out to the bitter end.

This is why of all the joys of running my own business, the one from which I derive the keenest pleasure is that I don't have to sit and endure when I get bored in a meeting. I can simply shuffle my papers and say, "That's all we'll cover today. Thanks very much everybody." If you have once been a bureaucrat, as I have, this is a truly delicious feeling....

—*Charles Peters*

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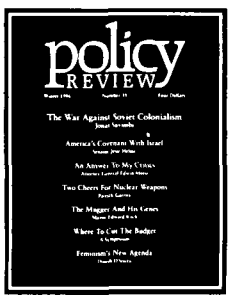

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ENTERPRISE AND DOUBLE CROSS

At the heart of America's industrial decline is a culture of mistrust

by Robert B. Reich

In 1985, soon after the Reagan administration arranged quotas on the importation of foreign steel, the U.S. Steel Corporation dropped plans for new investment in a Utah facility. Instead, it opted to import semi-finished slabs from South Korea to feed its West Coast finishing mills. Soon thereafter it spent $3.6 billion to purchase Texas Oil and Gas Corporation, on top of the $6 billion it spent a few years before to buy Marathon Oil. In mid-1986 it dropped "steel" out of its name and became USX, the last letter serving as an indelible reminder that what the corporation now stood for was unknown and unknowable. By that time energy accounted for two-thirds of its revenues and all of its profits, and thousands of workers had lost their jobs.

The ensuing political debate centered, predictably, on the benefits and the pains of economic change. Unionized workers, and not a few liberals, complained that U.S. Steel was abandoning steel, and so it was. They lamented the resulting unemployment of steel workers and the decline of traditional steel towns. On the other hand, conservatives pointed out correctly, there was no future in making basic steel. South Korea's Pohang Iron and Steel Company, for instance, operated one of the most modern mills in the world; it generated over nine million tons of steel a year. Pohang's workers earned an average of $2.50 per hour, or about a tenth of U.S. Steel's pay scale.

On the opposite end of the industrial spectrum, the Zenith Corporation invested several hundred million dollars in the 1970s trying to implement a potentially revolutionary idea: using lasers to play sounds recorded on a plastic disk. The lasers would "read" information encoded and compactly stored on the disk and reproduce sounds far more faithfully than conventional tapes or records. By the end of the decade, Zenith had abandoned the effort: production was simply too risky and expensive. Zenith opted instead to import videocassette recorders—a comparable but simpler technology—to sell under its own brand name. Sony, meanwhile, introduced the first successful mini-sized, laser-operated compact disk player, which swept the American market.

Both U.S. Steel and Zenith made rational calculations of the cost of pursuing a market and, following the logic of standardized mass production, opted out. In principle, however, each had other options. U.S. Steel could have eased out of steel and into new alloys and plastics that combine high strength with light weight. Or it could have moved into advanced ceramics that resist corrosion and heat, or into any number of other new materials that do what steel does, but better or cheaper. In most of these areas, no foreign producer was yet ready to compete. U.S. Steel could then have maintained its marketing links to its customers who made cars, buildings, and appliances. American auto makers, for example, were beginning to turn to Japan for ceramic

Robert B. Reich is a professor of political economy and management at Harvard's John F. Kennedy School of Government. Excerpted from Tales of a New America *by Robert B. Reich.* *Copyright © 1987 by Robert B. Reich. Used with permission of Times Books, a division of Random House, Inc.*

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Like jilted lovers, workers and managers become more cautious after they've been burned once. No one wants to be a sucker.

engines and carbon-fiber chassis. Had U.S. Steel moved in this direction, it could have retrained many of its workers, already skilled in making one kind of durable material, to meet the same needs with new products. It could have become U.S. Advanced Materials—a robust descendant of its former self. Zenith, likewise, could have regarded the laser disk not just as one potential product but as the wellspring of a stream of products flowing out of the collective experience gained by making the first—items like optical computer memories, disks containing information services, video disks that could be erased and revised. In this way, Zenith too could have evolved as its work force, and its surrounding network of suppliers and customers, also evolved.

Pursuing these options, however, would have required a fundamentally different approach to capitalism: collective entrepreneurialism. Traditional capitalism relies on a lone inventor or entrepreneur to dream up a big idea, investors to provide the capital, managers to translate the idea into rigid production systems, and "drone workers" to man that system. In collective entrepreneurialism, the distinctions between innovator, manager, and worker become blurred and investment becomes a mutual affair. Owners continuously invest in workers by giving them training and experience in new technologies. Workers invest in one another by sharing ideas and insights. Workers invest in the overall enterprise by moderating their wage demands. Such mutual investment extends outside the company as well. Suppliers of materials and parts invest by committing to produce specialized components. Creditors supply capital without requiring a rigid projection of how the funds will be used. This vision of collective entrepreneurialism should not seem unfamiliar. These are just the sort of feel-good management ideas that fill the bookstores and business schools.

Yet neither Zenith nor U.S. Steel followed any such path. What are we to conclude from this? One possibility is that the notions of collective entrepreneurialism are pipedreams, and that the only realistic options for most American workers are protection, idleness, or wages as low as their competition abroad. Another possibility is that the managements of U.S. Steel and Zenith were simply too dim to spot the sources of future profits. Neither of these explanations holds, however, either for Zenith and U.S. Steel or for the many other American companies who cling to the logic of standardized mass production and balk at a strategy of collective entrepreneurialism. The problem is rooted in a deeper dilemma: a simple lack of trust within American business culture.

Workers who bolt

Trust is by no means foreign to American enterprise, of course. There is evidence, for example, that employers commonly maintain wages and employment during downturns in the business cycle at higher levels than a strict reading of supply and demand would warrant. The reason for this defection from economic theory is due to employers' eagerness to maintain workers' loyalty, lest employees depart during upturns in the cycle. It is simply too expensive for employers to find and train good employees with every up and down in the economy. Similarly, sellers often allocate scarce goods to steady customers when supplies are tight—rather than charge the customers higher prices—to reward and reinforce customer loyalty during downturns.

These "hidden handshakes," as the economist Arthur M. Okun has called them, help explain why wages and prices do not move smoothly up and down with the overall economy. Loyalty has its own economic value.

Trust is a brittle organizational adhesive, however. Even if each member of a common endeavor stands to gain from a policy of trust, the perception that any one member can do even better by exploiting the others' trust tends to undermine the policy. Imagine, for example, that the chief executive of an American firm buys the idea of collective entrepreneurialism. He decides to invest in the production experience of the

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firm's workers. Instead of relying upon a Japanese supplier for a complex component, this executive decides to produce it inside the firm. Since the Japanese supplier has already learned to produce the item cheaply while the firm's workforce has not, internal procurement will cost about $1,000 more per worker than buying it outside. But our enlightened executive looks upon this added expense as an investment in his firm's workers. He figures that once his workers master the challenge of making this one component, they will be better equipped for further innovations. The firm's capacity to innovate, adapt, and improve will be expanded. The manager estimates that the total present value of this learning will come to about $1,500 per worker. So the initial $1,000 investment—with a 50 percent return—is well worth it, and the company opts for internal production of the component.

A year later, the executive is delighted to discover that his prediction was dead right. After figuring out how to make the component themselves, the firm's workers are far more knowledgeable about this area of technology. They can see all sorts of ways to apply their hard-won expertise to new products and to improvements of existing product lines.

But there is a problem. The workers *know* that they are now more valuable to the firm than they were before—about $1,500 per employee more valuable. When it comes time for the salary talks, each worker demands a raise worth, say, $1,499. If the company won't deliver, the workers announce they will simply go to work for a competitor who *will* pay what the workers are now undeniably worth. Individuals are not bound by ties of loyalty; they strike out on their own. Our enlightened executive has no choice but to accede to their demands, even though it wipes out the gain from his investment. But he sadly vows that from now on he'll buy advanced components from Japan.

Investments in knowledge cannot be protected like investments in real estate or machinery. Investors can assert and defend their stakes in tangible assets, but not in value that resides in peoples' minds. This dilemma explains, in part, why American companies have so often entered joint ventures with their Japanese counterparts. For many American firms, buying complex parts from the Japanese was more economical than training their own employees to make them precisely because firms could not guarantee themselves any harvest from investing in experience. Why go to the expense of giving your design and production engineers such valuable experience if, as studies show, almost half of them will leave the firm within two years?

In Japan such an investment was worth its price because engineers could be expected to spend their lifetimes with the firm. There, the myth of the individual entrepreneur is less rooted than that of the loyal teammate. Thus when the Sperry Corporation announced in 1985 that it would stop making its own small computers and begin to rely on Hitachi for the computers it sold under the Sperry name, investment analysts welcomed the news. They noted that Sperry would save tens of millions of dollars that it otherwise would have to spend on developing technologies for its next generation of machines—an investment that it could not be sure it would ever recoup. The decision was irrational only from the standpoint of the American economy as a whole, which otherwise would have benefited from more scientists, engineers, technicians, and production workers trained in the next generation of small-computer technology.

By the 1980s, this disjuncture between the private and social returns of investment in people was widespread. When Guardian Industries wanted to get into the fiberglass insulation business, it simply hired away six Manville Corporation employees who knew all about how to produce the material. Manville had spent $9 million over seven years to gain that expertise; Guardian was selling its own brand in just 18 months. Next time, Manville (and others like it) would be more reluctant to make such large investments.

American companies have energetically but seldom successfully sued former workers for walking off with hard-won expertise. In the mid-1980s, even California's famed Silicon Valley was embroiled in such litigation. It was not uncommon to throw a goodbye dinner for a key employee one night, and then serve legal papers on him the next morning. When Steven Jobs, cofounder of Apple Computer, left the firm to start another—taking with him his cumulative experience and that of several other engineers he brought along—the action reverberated throughout Santa Clara County. What would become of Apple's shareholders and other employees who had relied on the expertise of Jobs and the defecting engineers? All over the Valley, the entrepreneurs who had founded the major high-technology companies were being succeeded by second and third generations of entrepreneurs who wanted to found their own. But as each successive group peeled off from the former—carrying away the experience necessary

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for devising future products—it became ever more difficult to justify the initial investments. And as fewer investments were made, Silicon Valley began to falter.

Managers who sell out

The risk of exploitation runs the other way as well. Consider a company that makes dye castings for automobiles, appliances, and factory machines. The market for standard castings is shrinking, as ever more of these end products are produced abroad. The future lies in doing precision casts for computer parts and missile components, a process requiring substantial collective investment.

Suppose the firm's chief executive asks his material supplier to develop an unusual blend of aluminum and silicon, which will be easier to cast into small sizes and intricate shapes. He asks his employees to forgo wage increases for the next two years, so that the firm has enough cash to pay for the new molds and computers it will need. He asks the towns and cities in which the firm's factories are located to reduce the firm's tax bill to free up funds for retooling. His reputation for solid investments earns the firm's bonds a good rating, and creditors put up a new issue despite its unspectacular interest rate. The implicit promise made to all these parties is that, once the transition is complete, the firm will survive and prosper, and all who depend on it will be better off. Supplier, workers, creditors, and city officials go along.

Two years later, the new precision die casting operation earns gratifying returns, and is relatively safe from foreign competition. The future looks so bright, in fact, that the firm is acquired by a group of investors who offer the firm's shareholders a hefty premium over the current market price of their shares. The new group of investors pays for these shares with money borrowed from pension funds and savings and loan companies at relatively high interest rates. These loans are secured by the value of the firm's assets.

The chief executive who orchestrated the retooling promptly resigns, and the new group takes over the management of the firm. They inform the firm's employees that they are expected to continue working at the low wages to which they agreed two years before. They announce that because the firm is now so much more efficient, some of the employees will be let go. The new management demands a price cut for the hybrid material its supplier developed; otherwise, it will contract with another supplier at the same price. The city gets a similar message: more tax abatements, or the firm decamps to another city. The company's creditors get the news via the bond market: the firm's additional indebtedness has substantially increased the risk of eventual default and reduced the value of the bonds.

No party reaps the return it anticipated when it made its investment; none has any certain recourse in contract law. All would have done better by cutting their losses in the first place and refusing to cooperate in the firm's renewal. The new owners have, in effect, expropriated the benefits that were to go to these parties under the tacit agreements made with the former chief executive.

Three years later, when the South Koreans begin producing precision castings, the firm's new owners realize that to stay competitive they must offer customers still greater value. They prepare a plan to incorporate customized services into the product—milling, drilling, plating, trimming, and finishing the precision casts according to the customer's special needs. But the employees, suppliers, and other constituents will not be fooled again. They balk at participating in new investment without elaborate formal contracts that complicate and constrain retooling efforts. Covenants on the new debt limit investment options. Each participant insists that every obligation be spelled out in advance, every contingency be clearly described. It should come as no surprise that the contract-bound organization proves incapable of the sort of quick, creative responses to customer needs that would keep it competitive.

This story, too, has been replayed across America. The Chrysler Corporation, for example, received concessions from employees, suppliers, bank creditors, and the government during its near collapse in 1979 and 1980. Everyone contributed out of fear that the company would lapse into bankruptcy if they did not. But Chrysler continued to close plants and lay off workers. By the end, the firm employed one-third fewer people than it had at the start, and many of the cars it sold were being made in Japan. Thus the largest beneficiaries of the sacrifices were Chrysler's managers, who enjoyed magnificent bonuses, and its investors, whose shareholdings increased substantially in value as the firm recovered. Those Chrysler workers who survived until the austerity campaign paid off with spectacular gains in profit received only moderate pay increases. It seems doubtful that Chrysler workers would willingly sacrifice again.

Other enterprises now experiencing competitive strains followed a similar route. Eastern Airlines

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American companies have taken to suing former workers for walking off with expertise. In Silicon Valley, it was not uncommon to throw a goodbye dinner for a key employee one night and then serve legal papers on him the next morning.

faced bankruptcy in 1984. Its workers, challenged to help save the company, agreed to reduce wages and benefits in exchange for a seat on the board of directors and a chunk of common stock. But two years later, Eastern's board accepted a takeover offer from the Texas Air Corporation. Texas Air's chairman was notorious with labor for a ploy he pulled off with an earlier acquisition: after buying Continental Airlines he had filed for bankruptcy, which let him repudiate union contracts, lay off two-thirds of the labor force, and cut wages by half.

Tacit understandings in many companies were breached when they became inconvenient. Employees assumed they would receive any surpluses that might accumulate in their pension fund investment portfolios, over and above minimum sums required to be paid out to them as pensions. But this assumption was based upon informal agreements; the pension plans did not stipulate precisely what would be done with any surpluses. So firms with surpluses in their funds cashed them in, converted the minimum sums to annuities, and kept the surpluses for their shareholders. By the mid-1980s corporate raiders were on the prowl for firms that had not yet exploited this easy source of cash. When they found one, they offered shareholders a premium over the market price of the shares.

Nor were shareholders immune from exploitation by the stewards of their wealth, corporate managers. The erosion of good faith was amply illustrated, for example, by the device of the "golden parachute," which became routine during the merger wave of the early 1980s. This was a generous severance payment, often totaling a large multiple of the executive's annual salary and bonus, which was awarded—the parachute automatically opened, as it were—when a takeover became successful. The telling point is the justification invoked: the protected executives suggested such insurance was essential to preserve their impartial judgment about unfriendly takeover bids. Without the parachute, so the argument went, the executive would be tempted to fight the takeover even if it was in the best interests of the shareholders. This logic suggested that the only way shareholders could trust corporate executives not to feather their nests at the shareholders' expense was to provide them a prefeathered nest at the shareholders' expense.

When is it economically rational to violate a trust? Those who renege on informal promises and understandings surely bear a burden: they must live with a sullied reputation. Notoriety has its costs; parties who once repudiated obligations will find it harder to gain trust in the future. Employees who abandon a firm after gaining valuable experience, managers who abandon suppliers and employees after gaining concessions, managers who feather their nests at shareholders' expense—all must live with the long-term consequences of their one-time gains. But these consequences may be more than balanced by the one-time gains of exploitation. This is especially likely in a highly mobile, anonymous society. Reputations, like unpaid bills, often cannot keep up with those who move quickly.

For many Americans a lifetime of work entails relatively few repeat dealings. The typical American curriculum vitae records an unattached self who advances from job to job, organization to organization, place to place—as horizontally mobile as upwardly. By 1985, the average corporate manager stayed put for 4.5 years; the average chief executive, 4 years; the average employee even less. Corporations themselves changed hands at a rapid pace—often altering their names, locations, and images in the process. Mergers and acquisitions remained a favorite sport, and nearly half of all senior executives left their jobs within a year after their companies were taken over. When Esmark absorbed Norton Simon, Inc., in 1983, for example, many key Norton Simon executives departed. A year later Esmark itself was acquired by Beatrice Companies, which proceeded to slash Esmark's staff. Two years after that, Beatrice, in turn, was taken over by a group of investors that included several former Esmark executives, who promptly

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dismissed the latest regime. In these games of corporate musical chairs, the underlying production process typically remains unaltered.

Trust-breakers thus stand a good chance of dodging the full consequences of their behavior in part because they outrun them, and in part because the damage is inherently cumulative and systemic. Rather than attaching solely to the offending person or firm, the effects are likely to be diffused—resulting in general reduction of trust in all commercial dealings. Managers who feel exploited by departing employees are less forthcoming with subsequent employees. Suppliers or workers who are mistreated by one set of managers do not make the same mistake again when they deal with a different set. Shareholders are more meticulous in their choice of firm. Like jilted lovers, these parties are far more cautious next time. Their caution is shared by others who, although they have had no direct experience of being exploited, learn by observation to keep their guard up. No one wants to be a sucker.

This systemic erosion of trust precipitates all manner of precautions. Commercial dealings are hedged about by ever more elaborate contracts. There is a proliferation of work rules, codes, and standards to be followed. Requirements and expectations are well-documented in advance; enforcement procedures are minutely delineated. Laws are spelled out in greater detail, so that next time no party will be surprised by the opportunistic move of another. Rules governing bankruptcies, pension plans, the fiduciary responsibilities of corporate officers, and corporate takeovers, among other transactions, are rendered even more specific. Reciprocal rights and obligations are codified in ever more voluminous detail.

In this way, the opportunistic behavior of a relative few reduces the flexibility of the entire system. Collective entrepreneurialism becomes impossible. Because no one can be sure that someone else might not violate a trust, everyone takes precautions. Like a university honor code that, once transgressed, is replaced by a book of detailed stipulations, the exploitation of tacit commercial understandings results in a stifling profusion of contractual particulars.

Trusting employee ownership

The principle is understood by every practicing lawyer, accountant, and investment banker in America: red tape multiplies in parallel with the profusion of finagles it seeks to contain, and vice versa. As contractual refinements progress, litigation over them also escalates, for each party feels compelled to contest adverse interpretations of the ever more convoluted contracts and rules. Employees sue managers, shareholders sue directors, creditors sue those who audited the corporate books, everyone sues the companies that insure everyone against liability.

Those who get paid for rearranging economic assets, rather than enhancing their value, have a not inconsiderable pecuniary interest in the continued deterioration of commercial trust. The business pages of the morning paper offer continuous news of novel ploys and counter-ploys of paper entreprenuers seeking to outmaneuver one another. Every new thrust invites a more sophisticated parry, requiring an ever larger number of lawyers, accountants, and financial advisers to execute it. Between 1970 and 1985, the yearly total of private contractual disputes brought before federal courts tripled to 35,400. And the number and remuneration of lawyers and financial specialists steadily rose through the ups and downs of the real economy.

The party that refuses to take part in the game is at a distinct disadvantage. Self-righteousness is a poor substitute for strategy. The probability that others may try to exploit a relationship inspires a widespread resolve to be the exploiter rather than the exploitee. Taking immediate advantage of ambiguities in contracts and rules, for example, makes eminent sense when the other party, given a chance, can be expected to twist them to serve its own purposes. Similarly, in a context of suspicion and opportunism, information is transformed from a tool to a weapon. Withholding technical and economic data that, if shared, could boost joint productivity can be the only logical strategy for individuals who have learned to distrust their co-workers and managers.

Such stratagems, while rational from the standpoint of the parties involved, absorb time and effort and undermine joint endeavors. They make it far more difficult for enterprises to shift and evolve in response to the new commercial opportunities. They reduce the system's capacity to generate wealth.

A culture of opportunistic individualism aborts collective entrepreneurialism. It induces collective gridlock. When drivers going north and south opportunistically crowd into an intersection as the light turns red, they block the drivers moving east and west from going through on the green light. The maneuver is perfectly understandable from the viewpoint of the first motorists, who thus ensure they will not be the ones trapped

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by other drivers using the same ploy. Gridlock violators seldom suffer directly from their opportunism; city driving is a sufficiently anonymous activity that they are likely to get through with their reputations intact. But the cumulative effect of such behavior is to ensnarl traffic, and the greater the pressure on the traffic system, the more tightly gridlock takes hold.

Collective entrepreneurialism depends on commercial trust. Collective gridlock ensues when trust breaks down. The American economy in transition generates countless opportunities for mutual endeavor and joint gains, but at the same time countless invitations to opportunism. Each participant, knowing this and wary of being victimized, forswears trusting collaboration. Thus the system's evolution is stymied.

To the extent our place in the world economy is determined by our success at collective endeavors, the central problem of economic policy is how to create the kinds of organizations in which people can pool their efforts, insights, and enthusiasm without fear of exploitation.

One possible approach to this problem is to encourage versions of worker ownership. This may be seen as an old answer to a new question. Employee ownership has been widely advocated on largely ideological grounds. It has been just as widely condemned as inefficient. Different groups of employees—like younger and older workers—will often have different interests in immediate wages and dividends versus long-term growth, for example. Potential outside investors may suspect the motives and doubt the accountability of worker-owners and refuse to invest in their funds. Talented and diligent workers risk being exploited by the incompetent and lazy. And all worker-owners, if most of their wealth is tied up in the firm, bear more risk than if each owned a diversified portfolio of investments. If there were nothing to the notion of collective entrepreneurialism, if productive organizations were simply the sum of their fungible parts, it may well be that worker ownership would be a bad idea. But if our future prosperity does depend on ongoing learning and collective efforts, then some kind of worker ownership may be an important device for cementing common aims and building trust. It may be sufficiently promising as such a device to warrant considerable efforts to overcome its inherent problems. Indeed, when its purpose is framed this way, it may itself help to overcome some of these problems.

A direct ownership stake can go a long way toward generating a sense of collective responsibility. Employees would themselves reap the benefits of effort and innovation. Honing their firm-specific skills instead of basic skills that could be peddled anywhere would be a less risky strategy. Each worker would have a direct interest in training his colleagues, rather than jealously guarding expertise lest his own position become less secure. Workers would monitor each other as well as their managers, to guard against lapses of judgment or diligence.

The virtues of employee ownership would not be solely motivational. It would also allow the enterprise more flexibility. When sacrifices were needed to make it through lean times or develop new products or processes, worker-owners would be more ready to accept austerity, knowing they would reap the eventual rewards and not be shouldered aside once they had made their contributions. Secure in their place in the organization, they would not need to fear new technologies or endeavors.

The point is that some form of employee ownership and control could provide a superior context for forging joint commitment and fostering trust. Reciprocal dependencies would be clearer. Relationships would be longer-term, and reputations correspondingly more important; the slacker and exploiter would bear the burden of their actions. Such arrangements could go far to reduce the appeal of opportunism and increase the perceived advantages of collaboration, and thus lessen the dilemmas that give rise to economic gridlock. ■

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WHO'S WHO in the Administration

One of the things we were right about—that this national security staff was the worst in history—may have caused something else we said—that **Pat Buchanan** would leave the White House in November—to be wrong. The resignations made necessary by Irangate tend to eliminate pressure for others to depart for fear that it will produce a rats-deserting-the-sinking-ship appearance. Another factor is that Buchanan was demanding the NATO ambassadorship as his exit-price. Irangate may also have saved **Otis Bowen**, the secretary of Health and Human Services, at whom the White House was angry for his sponsorship of a government insurance program against catastrophic illness....

Buchanan is also likely to feel more comfortable in his job now that his nemesis, Chief of Staff **Donald Regan**, has lost so much power. Regan is almost sure to go, insiders say, because he has earned the opposition of **Stuart Spencer**, whose advice Ronald Reagan has habitually sought in the clutch. It is widely reported that Spencer is joined in his desire to get of Regan by **Michael Deaver**, **James Baker III**, and **Nancy Reagan**. The only way Regan will survive is if he has the goods on his boss—the president's recent blow-up at Nancy may mean that Regan does have the goods on him—and even then he might not. Remember, **Richard Nixon** fired **Bob Haldeman**, who was the only witness to the smoking gun conversation, presumably reasoning that because Haldeman was guilty too, he wouldn't talk....

Insiders tell us that one problem with **Lt. Col. Oliver North** is that he's just a tad wacko. Why else did he keep telling friends that terrorists had poisoned his dog, torn down his fence, and put sugar in his gas tank?...

One thing North is probably not is dishonest. He was one of two National Security Council (NSC) staffers to find out about the money in **Richard Allen**'s safe and blow the whistle on the former NSC chief....

Here's the smoking gun people are looking for concerning whether Regan knew about the diversion of money to the contras: **Robert McFarlane** was fired, in part, for not informing Regan of NSC doings. McFarlane's successor, **John Poindexter**, is not likely to have similarly erred....

Frank Carlucci's selection as National Security Adviser was hailed as bringing desperately needed competence that would restore confidence in the executive. Before we start sleeping well at night again, though, consider this: Carlucci has been chairman of Sears World Trade, which recently announced it was disbanding—and sending Carlucci on his way—because it had lost $60 million....

The case for giving National Security Council staffers a history test instead of a drug test upon hiring: none of the staffers involved in the shipments of arms to those Iranian moderates recalled that **Jimmy Carter** had tried something similar, nor that each time he had made overtures to moderates such as **Abolhassan Bani-Sadr** and **Sadegh Ghobtzadeh**, the plans were foiled by Iranian hardliners....

The hero of the arms affair is **Peter Wallison**, who replaced **Fred Fielding** as counsel to the president. It was he who orchestrated the public confession of **Reagan** and **Edwin Meese**. Wallison and the White House deserve a bit of credit (but just a bit) for breaking the news. Since no member of the press appears to have been onto the story, they might have been able to sit on it successfully. Wallison's one Achilles' heel may be his loyalty to his sponsor, Donald Regan, whom he might try to save....

Few have noted the interesting timing of **Alton Keel**'s appointment as deputy national security adviser. It was Keel who, as executive director of the Rogers Commission, helped guide the panel away from investigating the White House involvement in the Challenger explosion. The commission disbanded in July. Keel was appointed to the NSC job in August. The White House, of course, was grateful that the Rogers Commission didn't find wrongdoing in the White House. Some cynics note that the NSC job would have been a fine way to show their appreciation....

In case there is any doubt, it was Robert McFarlane's idea to sell arms to Iran. Incidentally, reports that on his secret mission to Iran McFarlane traveled on an Irish passport are probably true, though Irish officials say he didn't get one from them. Following the St. Patrick's Day rule that everyone is welcome to pretend they're Irish, the country has long given passports to anyone claiming to have an Irish granny....

In

WHITE HOUSE

National Security Advisor—**Frank C. Carlucci** has been president and chief operating officer of Sears World Trade Inc.

Out

WHITE HOUSE

Deputy Press Secretary—**Larry Speakes**.

Assistant to the President for National Security Affairs—**Admiral John M. Poindexter**.

Deputy Director of Policy Development and Political Military Affairs—**Lt. Colonel Oliver North**.

JUSTICE

Assistant Attorney General for Administration—**W. Lawrence Wallace**.

CIVIL RIGHTS COMMISSION

Staff Director—**J. Al Latham, Jr.**

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NICE PAC YOU'VE GOT HERE...

Sen. Rudy Boschwitz prides himself on being accessible to all his constituents, often pointing out that his home telephone number is listed in the Minneapolis phone book. But during much of 1986 some constituents had more access than others. Those who had given at least $1,000 to Boschwitz's campaign during the previous five years became members of his "Washington Club" and were given a booklet of blue "special access stamps." Boschwitz's staff was told to respond to mail with special access stamps faster than the rest of the letters. This summer, after press reports revealed the practice, it stopped.

Of course it should come as no surprise that large contributors enjoy greater access to legislators than those who confine themselves to the more pedestrian forms of support like voting. John Q. Public has always suspected that his call might be returned more slowly than John D. Rockefeller's. But Boschwitz's access stamps illustrate a new brazenness among politicians.

The days of innocent congressmen being corrupted by nefarious PACs and wealthy constituents are gone. It is now the politicians who aggressively pursue the special interests.

The fish go fishing

The phenomenal growth of political action committees has been well documented, their perniciousness well noted. What has been less noted is that candidates now shake down the PACs. "I would guess that 99 percent of PAC contributions are in response to candidates' requests," says Elaine Mullican, election counsel to the Senate Rules Committee.

The strategies for hitting up PACs have grown increasingly imaginative and bold. Seven months ago, then-Sen. James Abdnor was involved in a tough primary race. President Reagan had agreed to host a reception for him, but PAC responses to the $1,000-a-plate function were lukewarm. So Abdnor hired couriers to go to 40 PAC offices and present a card soliciting their contributions. The couriers were instructed not to leave an office until they had a response. One PAC representative crumpled the card up and threw it in the courier's face in disgust. That one rebuff notwithstanding, the strategy succeeded: the fund raiser raised $225,000.

After the 1982 elections, successful Democratic senators gave a workshop for those up for reelection in 1984 on how to influence PACs. One strategy they discussed was playing one PAC against another. "They told us how to go to a bank PAC, for example, and tell them that the savings and loan and insurance PACs were already on board, and that they should contribute too or they would miss out," says Sen. David Boren, author of legislation to limit PAC contributions. PACs might not believe their contribution will put a legislator in their pockets, but they want to make sure that he or she is not

Amy Dockser is a Cambridge writer. *Research for this article was supported by a grant from the Project for Investigative Reporting on Money in Politics.*

...A PITY IF ANYTHING SHOULD HAPPEN TO IT

How politicians shake down the special interests

by Amy Dockser

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Legislators now hound PACs with such intensity and persistence that one can almost feel sorry for the PACs.

swayed by an economic competitor. "It's a blackmail situation and even the lobbyists and PACs realize it's out of control," says Boren.

A variation on this theme is to play the jealous younger sibling, asking the PAC: if you gave to Congressman Blowhard, why can't you give to me? This ploy requires some homework. Typically, a staff member goes to the Federal Election Commission, copies the quarterly PAC contribution reports, and makes note of the congressmen on the same committees as the boss. "If they know Shell is going to one member of the committee, they call up Shell and tell them that their guy's vote is just as important as other committee members'," recalls a former administrative assistant to a Republican congressman. "If your senator is the fourth ranking member on the Appropriations Committee, for example, you get the chairman's list of contributors and then gauge your senator's worth accordingly, proportionate to the chairman's. If a PAC or lobbyist comes into your office or wants an appointment, you tell them 'you gave $500 to that senator and only $250 to me.' "

It used to be that PACs gave money in order to assure access; now the candidates demand money as the price for access. Boschwitz and Sen. Charles Grassley both keep lists of the PACs that have contributed to them on their desks for easy reference. *The Wall Street Journal* recently showed how New York Sen. Alfonse D'Amato, former chairman of the securities subcommittee, used his ability to block legislation on regulating junk bonds to elicit $33,000 from employees of Drexel Burnham Lambert, one of the leading promoters of such bonds. The *Journal* quoted one Wall Street lobbyist as saying, "Nothing is enough. It's continuous pressure. If you don't contribute, they don't return your calls."

The fund-raising pitch can be pretty blunt. "If you say you can't come to an event because you'll be out of town, they say, 'We'll tell the senator you don't want to contribute to his campaign,' " says one political consultant who used to manage a PAC. "So then you contribute to his campaign because you don't want to be on a shit list. To raise money you have to ask for it, and if you ask more, you get more."

The bigger the fish, the more bait he or she can demand. Many PACs complained that Senate Finance Committee chairman Robert Packwood used his position and the impending tax reform bill to raise campaign funds. Packwood, for example, asked real estate brokers to hold "real estate industry nights" to raise money for him. The real estate industry was among the industries most petrified in 1985 and 1986 by the prospect of tax reform.

One California legislator told a California commission investigating electoral reforms that during one of the panel's hearings, instead of listening to the testimony, he had been making lists of who might contribute $1,000 to his next fund raiser. "If you're a legislator it has got to cross your mind: a rent control bill is coming up, and it's important to the real estate brokers, landowners, and developers," says Roger Carrick, an aide to former California Gov. Jerry Brown. "So you call ten PACs the day before the vote and invite them all to a fund raiser. A friendly phone call.... The potential for corruption is enormous and more people are driven over the edge."

The same tactics apply toward honoraria, the gifts organizations give legislators as "speaking fees." One executive at an electric company says, "Many times candidates call us up and say, 'I'd like to come by and see your plant.' That means 'invite us to give a talk and pay us an honorarium,' and we usually do." Rep. Andrew Jacobs Jr. tells a similar tale. "I know staffers for congressmen that call ahead when their boss is coming into a town and tell PACs and corporations: 'he needs honoraria while he's there, and he expects to get them.' The only reason that's not called bribery is because the congressmen are the ones that decide what constitutes bribery."

The rise of candidate-sponsored PACs have added yet another new twist. Candidates now set up their own PACs, raise money, and distribute it among their colleagues, winning friends along the way. "When members start raising money for other people, saying, 'I want you to give money to my friend,' it makes everyone uncomfortable," says Boren. "You're placed in a position of not

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HARPER'S INDEX

Interest payments on the federal debt that were made to foreigners in 1984 : $19,800,000,000
U.S. foreign aid in 1984 : $15,583,000,000
Hours spent on strike by Italians in 1979 : 192,700,000
In 1984 : 51,000,000
Rank of Italy, Argentina, and Libya in annual per capita pasta consumption : 1, 2, 3
Pounds of pasta the average American ate in 1975 : 6.8
In 1984 : 11
Number of Americans who drink Coca-Cola for breakfast : 965,000
Quarts of ice cream the average Southerner eats each year : 12
The average New Englander : 23
Potholes in the United States : 55,961,000
Cost of having a car blessed at the Daishi Buddhist temple in Kawasaki, Japan : $10.77
Cost of a car wash at Steve's Detailing in New York City : $145
Percentage of American women who said they liked sports cars in 1976 : 39
Who say that today : 56
Percentage of American men who say they sleep in the nude : 19
Percentage of American women : 6
Copies of *Bride's* bought by the magazine's average reader : 7
Percentage of black high-school graduates under 25 who are unemployed : 26.8
Percentage of white high-school dropouts under 25 who are unemployed : 26.2
Amount South Africa spends to educate the average white student each year (in rand) : 1,385
The average "colored" student : 872
The average black student : 192
Number of Jews permitted to emigrate from the Soviet Union in 1979 : 51,320
In 1984 : 896
Number of Americans who emigrate each year : 100,000
Percentage of New York City children who live below the poverty line : 40
Average age at which American girls began to menstruate in 1900 : 14.3
In 1984 : 12.9
Percentage of American obstetricians/gynecologists who have been sued for malpractice : 67
Number of Americans who have been killed on the job by robots : 1
Number of Americans currently frozen in the hope of one day coming back to life : 11
Number of Americans holding reservations with Pan Am for a trip to the moon : 90,002

Figures cited are the latest available as of April 1985. Sources are listed on page 74

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It used to be that PACs gave money in order to assure access; now politicians demand money as the price for access.

just turning down one senator, but any others he's raising money for."

Legislators now hound PACs with such intensity and persistence that one can almost feel sorry for the PACs.

Charles Frazier, Washington director of the National Farmer's Organization, a small PAC, says he gets as many as 100 invitations a week, ten times the number he used to. "What bothers me most, though, is that some congressmen have my home address and they solicit me there. It's annoying to come home after work and find a whole mailbox full of them," Frazier says.

The PAC solicitation process has become routinized and mechanized. Congressional staff members keep close tabs on organizations that write or call the legislator, storing any names in the potential contributors file of their computer. The National Asphalt Pavement Association disbanded its PAC four years ago, in part, they say, because they were tired of being swamped with requests. "We still get ten invitations a day," says the organization's president, John Gray. Sen. Bob Graham's campaign corresponded regularly with more than 1,000 PACs, sending them the latest polls, FEC reports, and press clips.

In general, PACs are likely to be kept informed of the date of the next fund raiser—even if the PAC doesn't share the concerns or positions of the legislator. The Consumer Federation of America, for example, this year received several mailings from Rep. Joe Skeen. The Federation gave Skeen a lifetime rating of 14 percent on consumer issues, yet his letters always begin, "Because your organization and I share the same concerns and we have worked together on issues affecting my constituents and your members, I thought you'd be interested in the enclosed material."

Bucking opponents

The principal reason for this aggressiveness is obvious and has been well-covered by the media: the cost of campaigns has skyrocketed. The total amount spent on U.S. Senate races in 1986 was $140 million, twice the amount in 1980. House candidates spent $146 million in 1986, compared to $117 million in 1980.

But most incumbents aggressively raise their money not to finance tough elections, but to avoid them. A hefty war chest can help them avoid contested elections altogether by scaring off potential opponents. That's one reason more than 95 percent of the incumbents won their last election. Not coincidentally, 83 percent of all PAC contributions to House races went to incumbents. Incumbents seeking job security now farm the increasingly fertile PAC fields; there were roughly 4,400 PACs at last count.

In addition, candidates with extra money can gain themselves power in Congress by using their campaign committees or personal PACS to funnel contributions, the 1980s equivalent of Lyndon Johnson greasing his path to congressional power by funneling campaign contributions to colleagues.

A final reason for high-pressure fund-raising is the need to maintain a certain lifestyle. "You can live a fancy life in D.C. or not," says Jacobs. "It's your choice to have nice dinners, hire caterers, and be served by guys in jackets, but that's a heck of an expense. Politicians need money to keep up with lifestyles that aren't really necessary. But it's like taking drugs. Accepting money leads to an addiction."

More than ever before, legislators focus on raising money, now spending as much time fund-raising as legislating. Keith Abbott, finance director of the Democratic Senatorial Campaign Committee, advises Democratic candidates for the Senate to spend at least 50 percent of their time raising money.

The late Rep. Phillip Burton warned against the current situation during the debates about the 1974 electoral reforms. "We are the ones who are going to be corrupted," Burton said. "The enemy is going to be us."

When politicians start to see a dollar sign behind every vote, every phone call, every solicitation, those other factors sometimes weighed during governance, like the public good and equal access to government, become less and less important. ■

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FAITH, HOPE, AND CHICANERY

Want to do some good? Ask your favorite charity where it spends its money.

by John Wark and Gary Marx

The souvenir program for the Bahia Shrine Temple circus held in Orlando, Florida, in 1983 tugged forcefully at local heartstrings. It was packed with testimonials and photographs of patients treated in the Shrine's 19 orthopedic and three burn centers for children. There was a photo of a bandaged, smiling two-year-old recovering from severe burns and another showing a clown cheering up a wheelchair-bound child. Local businessmen who were told the circus would benefit such children filled the program's pages with paid ads and purchased blocks of tickets.

The circus was a tremendous success. It made an $81,000 profit, more than any circus in the Orlando chapter's 22-year history. Unfortunately, not a penny went to provide medical care to disabled and burned children. Instead, the Orlando Shriners placed the money in the bank and drew on it for temple-related travel and entertainment, the upkeep of the fraternity's private bar and restaurant, and the payment of utilities and other expenses.

The Shrine fraternity, which operates the nation's largest charity, had been misleading the public for years. And not just in Orlando. Fewer than ten of the 175 Shrine circuses held each year donate any money to the hospitals. In 1984, the circuses reaped an estimated profit of $17.5 million. The charity's own records show the hospitals received only 1 percent of that, a total of $182,000. When you add the revenue from the fraternity's other fund-raising activities—football games and the sale of Shrine newspapers, for example—less than one-third of all receipts actually went to pay for the treatment of Shrine hospital patients.

The Shriners are not unique. Behind many a worthy cause—whether furthering cancer research or locating missing children—may be a charity scam. "Whenever the current news is focusing the public's attention on a crisis or a need it becomes a focus of fund-raising, both by existing charities and newly created opportunists," says Larry Campbell, California's registrar of charitable trusts. "For us it's hard to remember there are legitimate charities out there operating." It is also difficult to determine which are legitimate. Though the nation's 483,000 charities and public service organizations reported income of $225 billion in 1984, accurate financial information on individual organizations is hard to come by. As a result of

Photo: The Orlando Sentinel

John Wark and Gary Marx are reporters with The Orlando Sentinel. *Their series on the Shriners recently won the Associated Press Managing Editors' Public Service Award.*

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the regulatory freedom charities enjoy you can learn more about the Shrine by visiting one of their three-ring circuses than you can from their glossy annual report or IRS file. Because charities have successfully fought disclosure initiatives, what can be learned about their finances boils down to what they decide to tell you.

Super Bowl shuffle

In September, about 30 state regulators and assistant attorneys general met in San Antonio to review the year's crop of dishonest charities and professional fund raisers.

John Vasquez, an assistant attorney general from Texas, briefed his colleagues on the Rainbow Foundation, an organization that had been raising funds in Texas and California to buy dying children their last wish. The state forced the organization into receivership last year following complaints that contributions were not being spent as advertised.

When Vasquez obtained a warrant and visited the foundation's offices, he found records so incomplete "we'll never know how much money they had." The records, however, did show that money was spent to rent a home in Houston for Rainbow's administrator, Jamie Norris. They also indicated that Norris used donations to pay for personal trips to Switzerland and the Cayman Islands where investigators suspect he squirreled away a significant portion of the charity's funds.

Vasquez also told of a charity dedicated to multiple sclerosis research that was supported through rock concerts organized by friends of Ronnie Lane, a former bass player for the rock group Small Faces. Called Action for Research for Multiple Sclerosis (ARMS), the organization was shut down in March when investigators found $1 million had been spent on administration and only $67,000 on medical research. A state-appointed receiver has filed a lawsuit charging that most of the money spent on ARMS went to exorbitant salaries and administrative expenses paid to the charity's administrator, her lover, and friends. Some $4,000 alone was spent on eating and drinking at a posh Houston dining club.

Terry Knowles, New Hampshire's registrar of charitable trusts, then told of an organization that sold commemorative coins nationwide for the Christa McAuliffe scholarship set up at the New Hampshire high school where the space shuttle crew member had taught. The company's salesmen told people buying the coins for $19.95 each that all proceeds went to provide college scholarships. But the legitimate fund never received any of the money.

Illinois Assistant Attorney General Tina Rosso said her office is still trying to untangle a mess caused by last year's sale of the Chicago Bears's "Super Bowl Shuffle" record and video. The producers of the shuffle told the Bears that "a substantial portion of the proceeds...will be donated to help feed Chicago's neediest families." That message also appeared prominently on the record cover. But so far none of the reported $365,000 in profits has gone to help needy families in Chicago or anywhere else. The producers have admitted to investigators they had no specific charity in mind when they started.

Waverly Crenshaw, Rosso's counterpart in Tennessee, offered details about a bogus charity called Missing Children USA, Inc. Investigators forced it to close this year after they discovered it misled contributors into believing it was a nonprofit organization that published a monthly magazine with pictures of missing children. The company turned out to be a for-profit business that had published only one issue.

Of course there are scores of other charity frauds that the regulators didn't discuss at their San Antonio meeting. The Rev. Guido John Carich, fund-raising director of the Pallotine Fathers in Baltimore, was charged by the state of Maryland in 1978 with soliciting money in the name of the Fathers but spending it on food, travel, and real estate. Carich, who allegedly concealed $2.2 million in secret bank accounts, pleaded guilty and was given a one-year probation.

The American Cancer Society's chief New York fund raiser, Miriam Grubard, was convicted in 1985 of conspiracy to defraud the IRS because she helped contributors file fraudulent tax returns.

Raiders of the lost tax forms

Historically, mismanaged charities have been as much of a problem as the scam charities. There may not be outright fraud, but the effect is the same: a small portion of contributions go to the cause. In 1938, Basil O'Conner, a friend of Franklin Roosevelt, was appointed to head the National Foundation, a charity Roosevelt established to raise money for polio research. Over the next 20 years the foundation raised nearly $550 million to "fight polio." Yet only 6 percent was spent on research, according to Harvey Katz, a charity expert.

Father Flanagan's Boys Town, subject of the popular 1938 motion picture, was found in 1972 to be furiously soliciting public donations but

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spending less than a fourth of the $25 million it raised each year on its boys.

In both cases the problem was gross mismanagement rather than fraud, although the line between the two is often blurry.

In the case of the Shrine the jury is still out on whether they have committed fraud or just mismanaged funds. IRS records show they spent more money in 1984 and earlier years on conventions and parties than on the hospital charity. The records show the fraternity spent roughly $86.3 million in 1984. About $42 million went to the general operating expenses of the Shrine's members-only clubhouses, bars, restaurants, and golf courses. The Shriners spent another $21 million that year on travel to state, regional, and national conventions, hospitality suites, picnics, parties, dinners, dances, fraternal ceremonies, and the purchase of gem-studded jewelry for Shrine leaders.

The fraternity's board of directors—who can spend as much as $180,000 of their own money to get elected to the board—receive free trips to exotic places and an expense account that sometimes reaches near the six-figure range. The Shrine also spends more than $1 million on the travel expenses of Shriners who attend the organization's annual convention.

Even money the public contributed directly to the hospital endowment was not used to treat disabled or burned children. For example, the Shriners raided the fund to provide almost $1 million in low-interest and no-interest loans to 13 top officials. The loans were used to build or buy new homes in Tampa, Florida.

Charity investigators in six states continue to look into temple finances and fund-raising activities. They have reportedly found everything from the sale of unregistered annuities to evidence of fund-raising misrepresentations. The Shrine board of directors recently adopted a number of fund-raising reforms, including a requirement forcing temples to tell the public whether a fund-raising event benefits the hospitals or the fraternity. But the Shrine continues to refuse to open its books and disclose how it spends its money.

Excessive fund-raising expenses are still the most common problem in the industry. The National Charities Information Bureau, a charity watchdog group, recommends that charities spend at least 60 percent of their total income on program services. Prominent charities such as the Disabled American Veterans and the American Lung Association cannot even meet this modest goal, spending 57 percent and 59 percent, respectively. The Shrine, of course, is considerably worse, spending an estimated 30 percent on providing medical aid to burned and disabled children in their hospitals in 1985. By contrast, the National Easter Seals, the American Cancer Society, and the Muscular Dystrophy Association each spend about 70 percent of their total income on services, while the American Red Cross spends 84 percent, and Catholic Relief Services and CARE spend more than 90 percent.

Some of the differences arise from the methods of fund raising. For example, Disabled American Veterans relies almost exclusively on direct mail solicitations, one of the most expensive techniques. Catholic Relief Services, on the other hand, raises much of its money through the network of Catholic churches already in place around the country. Others, like the American Red Cross, and the American Cancer Society, rely heavily on hundreds of thousands of volunteers, the most effective way of reducing fund-raising costs.

There is another way to "reduce" fund-raising costs: creative bookkeeping. Charities can greatly overestimate the actual amount spent on program services by including in that category various administrative costs. For example, a charity may send an administrator out to the field hospital or homeless shelter once every two months and include that person's entire salary in the program services budget. Or a charity can obscure its dismal record of giving with clever wording or key factual omissions. The Shrine, for instance, claims that 96 percent of each contribution to the charity is spent on "program services." How can the Shrine make their claim? By talking in terms of *contributions* instead of *total income*. Contributions directly to the charity—and remember, most of the money raised indirectly for the charity through fraternity fund-raising activities never even makes it to the charity—amounted to $114 million in 1985. That year the charity spent about that much to operate its hospitals. So far so good. Sounds like the Shrine is a pretty selfless and effective charity. What the Shrine doesn't tell the public is that they have a $2 billion endowment, built over the years in large part from individual contributions, that generated $230 million in income in 1985. If the public hadn't contributed a dime to the Shrine in 1985, the income on the endowment alone would still have been enough to pay for the costs of all the hospitals two times over. In essence, then, direct contributions to the Shrine hospital charity simply allow the investment portfolio to grow bigger and bigger, with little benefit for the hospitals. How many contributors would have given if they knew their

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Photo: The Orlando Sentinel

"All we were saying was, 'Hey, listen, you have to tell the public how you spend your money,'" says one congressional aide. "But Jerry Lewis and the Catholic Church went bananas. They tried to kill the bill, and they succeeded."

favorite charities were swimming in excess cash, while other needy organizations were counting nickels? In total, the Shrine charity spent only one-third of its income on providing medical care.

Americans gave $80 billion to charities in 1985. Yet most of us are naive about where the money goes. We tend to trust that a group soliciting for a good cause is itself good. After all, who can resist appeals that use emotionally charged images of starving children, or children on crutches, or dying children who as a last wish might want to meet Mickey Mouse?

In the face of such solicitations, who bothers to ask: how much of my donation will be spent on the charitable program? What percentage will be used to pay administrative salaries? What percentage will be spent to cover the cost of raising money? Current laws do not require charities to disclose this information. And judging from experience, it could be a tough battle to get the laws changed.

Jerry Lewis goes bananas

Charities and regulators have fought over the issue of accountability for decades. They have skirmished in Congress, butted heads in state legislatures, and debated the issue twice before the Supreme Court. Certified public accountants, direct mail firms, charity rating agencies, state attorneys general, religious groups, and the General Accounting Office (GAO) have all tried and failed to effect reform. "Charities are powerful because the people running them are the movers and shakers in their communities," says Edward Van Ness, executive vice president of the National Health Council, which represents 62 of the nation's largest health organizations. "They make their views known to politicians when they feel strongly about something. That happens in every state."

Charities blocked the adoption of a charitable solicitation law for six years in New York because it required charities to provide detailed financial information at the time they request money. When this "point of solicitation disclosure" provision was removed this year, the bill sailed through. "The legislature was very tuned in to what the [charities] wanted," recalls Valerie Voorhees, a New York assistant attorney general who helped draft the law. "We either had to listen to what they said or we wouldn't have gotten a bill passed."

But consider what New York gave up. Disclosure at the point of solicitation would make charities more competitive and efficient. It would force them to strive to reduce their fund-raising and administrative costs in order to attract contributors. At the same time, contributors would get information essential to making an informed decision about which charities to support. Positive as these reforms seem, charities bitterly oppose them. "The major charities like the status quo," says Larry Campbell. "They don't want the public to know what is going on. They want the laws to be the least restrictive and the least burdensome."

And so they are. Congress has largely abdicated any responsibility for the regulation of charities. In the 1960s, then-Senator Walter Mondale investigated charities and contemplated introducing laws that would force financial disclosure. But he never proposed any legislation because, "I didn't find much public interest in it. I think the public is not aware of this problem."

George Gould, former aide to the late Rep. Charles Wilson of California, recalls helping Wilson draft legislation in the 1970s to force

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charities soliciting by mail to include with their appeals a pie-chart showing the percentage spent on fund-raising and charitable services. "We weren't telling anyone how to spend and where to spend," says Gould. "All we were saying was, 'Hey listen, you have to tell the public how you spend your money.' We had the Epilepsy Foundation, the American Heart Association, and the American Cancer Society behind us. But Jerry Lewis and the Catholic Church went bananas. They tried to kill the bill, and they succeeded."

Congress has passed the problem over to the IRS. By law the IRS is responsible for processing annual financial reports filed by charities and providing copies—known as 990 forms—to the public upon request. Unfortunately, the IRS often comes up empty-handed or offers incomplete records when asked for the 990s of a specific charity. In 1983, the GAO studied 10,930 1981 returns of tax-exempt private foundations and found that 94 percent "did not completely respond to certain public information reporting requirements." The organizations omitted information on their 990s about gifts, grants, donations, expenses, assets, liabilities, and net worth, as well as names of administrators. Johnny Finch, associate director of the GAO, told a House oversight committee that the IRS's failure to monitor the forms was "shocking."

"Our [1983] hearing just confirmed that they weren't looking at the 990s," says Theodore Jacobs, chief counsel for the House subcommittee on commerce, consumer, and monetary affairs, which asked the GAO to investigate whether the IRS was ignoring incomplete returns.

Today, the same problems plague the agency. For instance, the IRS could provide only 343 of the 685 forms *The Orlando Sentinel* sought for a four-part series it did on the Shriners last summer. In addition to its failure to supply forms, two-thirds of the forms it did provide were missing important information.

Connecticut Assistant Attorney General David Ormstedt has also encountered problems with the way the IRS handles the 990s. "You can put whatever you want on the 990, and as long as you fill in the top part [where the organization enters its name] the odds of getting called to task are relatively slim," he says.

One reason the IRS does not do an effective job with the 990s is that the division responsible for handling the forms—the Employee Plans and Exempt Organizations Division—has not been given adequate resources. The division's 1986 budget of $30 million is $4 million less than last year. The division's work force was reduced this year to its lowest level in seven years, dropping from a high of 925 in 1984 to 780 in 1986. At the same time their workload has increased; the division is expected to monitor and manage records of an incredible 887,000 tax-exempt groups. In 1983, those organizations reported income of $234 billion, an amount equal to about 7 percent of the nation's gross national product. One reason the IRS does not give sufficient resources to this division is that from their point of view it isn't "cost effective"; auditing complex tax exempt organizations is often more difficult—and brings in less revenue—than targeting the returns of individual taxpayers.

Agency officials chafe at the suggestion the IRS is ineffective. Still, administrators were at a loss to explain why many of the forms were incomplete or why the IRS could provide only half the forms the *Sentinel* requested. They said there could be a variety of reasons, mislocating the forms being one. "Did you ever see the movie 'Raiders of the Lost Ark?' " asked Howard Schoenfeld, a top IRS administrator. "Remember the end of the movie? It reminded me of one of the federal records centers." At the conclusion of the film, the deadly and supernatural ark is placed in an innocuous crate, then deposited amid acres of identical crates in a cavernous government warehouse. Said Schoenfeld: "Who knows where the 990s are stored?"

Shyster control

State efforts to regulate charities have been equally ineffective. In the past, state authorities have had to rely almost exclusively on consumer fraud laws. These laws work well when prosecuting cases of blatant malfeasance, but because they require authorities to prove intentional wrongdoing, the laws have little effect in controlling charities that simply have exorbitant administrative or fund-raising costs.

Thirty-five states have adopted charitable solicitation laws. But they generally lack strong enforcement provisions. Most require only that charities register and file annual financial reports. Only California requires charities to disclose fund-raising costs to contributors at the time they solicit money. At the same time oversight of these laws is woefully inadequate. For example, California has about 20 employees to monitor 45,000 registered charities and professional solicitors.

State regulators have long recognized the need to get charities to declare their finances to contributors up front, but only recently have they pulled together to do something about it. The

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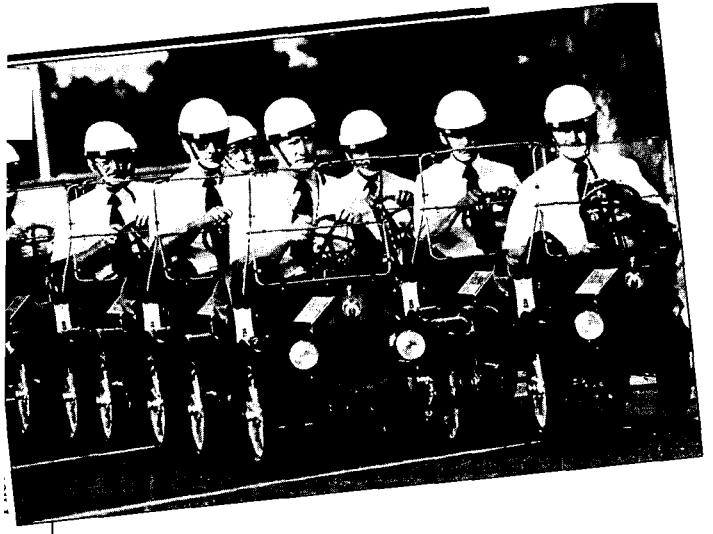

Charities are powerful because the people running them are the movers and shakers in the community.

result has been a "model law" drafted by the National Association of Attorneys General. The model law, which could be introduced into state legislatures as early as this month, was originally designed to require up front disclosure by charities. But that provision was opposed by an advisory group of charity representatives who made it clear they would lobby in every state house in the country to defeat any attempt to force such disclosure. As a result, the bill now would impose an up-front disclosure requirement only on professional fund raisers that charities sometimes hire. Charities themselves will be required to provide financial information only upon request.

Attorneys for charities and professional solicitors have successfully assaulted laws similar to the model law on First Amendment grounds. In 1980 and 1984 the Supreme Court struck down laws in effect in 19 states prohibiting charities from soliciting the public if the amount spent on fund raising exceeded certain limits. The court ruled that such limits restricted the free speech of charities by preventing them from soliciting.

Regulators then turned to simple disclosure of percentages, but this has also proven difficult to defend in court. Last year, a Maine Superior Court declared unconstitutional a law forcing fund raisers to tell prospective donors the projected percentage spent on charitable services, management, and fund raising. The disclosure requirement applied only to organizations spending less than 70 percent of their funds on charity. The court ruled the law violated free speech because it forced disclosure of so much information that it impeded a charity's ability to raise money. The court also ruled the law was not applied equally because it singled out charities that spent less than 70 percent of their income on their programs.

Attorneys general around the country seem certain the model law won't suffer the same rebuff from the courts. The model law will be found constitutional, they say, because it requires disclosure of general financial information only if someone requests it. Although the legislation requires professional fund-raising firms to provide information when soliciting, they don't have to provide as much data as under the Maine law. Moreover, the model law disclosure provisions are applied equally to all charities.

Even as amended, however, attorneys representing charities say the model law remains too broad. The law "has very dubious constitutional validity," says Errol Copilevitz, a Kansas City attorney whose clients include charities and professional fund raisers. "It is, in my mind, simply an extension of the use of percentages which the Supreme Court has now said twice are improper barometers or not proper tools in this area."

The charities' opposition is, of course, based less on the Constitution than on their finances. Point-of-solicitation disclosure, they say, would chill contributions. They claim most people don't understand the cost of raising money. In a survey of 1,000 corporate and individual contributors, the Philanthropic Advisory Service of the Better Business Bureau found that more than 30 percent of the respondents expected 80 percent of their donation to go to the charity's service. Most charities donate roughly 60 percent. "To institute a point-of-solicitation disclosure law when the public thinks that 90 percent of their money goes to program services would be detrimental to charities," says Elizabeth Doherty, the former director of the advisory service.

Charities argue that to summarize finances in a disclosure statement is misleading, that summary statements are inadequate gauges of a

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charity's effectiveness. They say the cost of raising money varies widely depending upon the type of organization; it costs an organization using paid workers more to raise funds than one using volunteers, and it costs a new organization more to raise funds than an older, established charity.

Charities also claim summarized financial disclosure is misleading because there is no universally accepted method of accounting for expenses. The American Institute of Certified Public Accountants alone has put out five separate books of standards.

These arguments don't stand up. If current summary disclosure methods provide too little information to give an accurate picture, then charities can devise a formula that gives sufficient data. If accounting procedures vary too much, then they can devise one standard formula. At the same time the charities have complained the differences in accounting procedures make summary financial disclosure impossible, they have fought efforts by regulators who sought uniform accounting methods. In fact, charities and their accountants in 1978 helped rewrite the laws to allow *more* flexible bookkeeping. It's easy to see why. Accounting flexibility allows charities to understate their fund-raising and administrative costs while overstating their programs' charitable spending. Any real reform will have to include uniform accounting standards.

The charities' support for the model law puts the lie to their contention that summaries don't work. The legislation requires summary disclosures, but for fund-raising firms rather than charities. If it's not overly burdensome on these firms, why would it be a death blow to the charities themselves? Upon-solicitation disclosure would not be an intolerable burden on the charities, and it obviously would make it easier for the potential contributor to make a wise choice.

Without regulation contributors have the burden of seeking information about the charity—a step that most donors simply do not take. Even the most conscientious givers have no guarantee they are getting the relevant information when they ask. Take the Shriners, again, as an illustration. In response to requests for financial information, they hand out glossy annual financial reports filled with data on their hospital charities. But the reports don't divulge anything about the finances of the 189 Shrine temples that act as the charity's fund-raising arm.

Finally, the charities' main argument—that disclosure laws would dampen giving—is contradicted by experience. Disclosure has worked in the few places it has been used. In Los Angeles, for example, charities are required to present potential contributors with an "information card" when they solicit. The card gives a charity's address, a description of its purpose, and a breakdown of revenues and expenses, including fund-raising costs. Solicitors are required to present this information before asking for donations, whether over the telephone, by mail, or in person.

The American Heart Association recently rated their local charities on fund-raising ability. They concluded that the Los Angeles affiliate performed better than 70 percent of its chapters, including those in Chicago and New York.

"The solicitation rule in Los Angeles does add some red tape," says Ron Kensey, director of development for the Los Angeles chapter of the Heart Association. "But it has not hurt our ability to raise funds and it does mean that a lot of shysters are put out of business." Kensey says organizations in Los Angeles have tried to pass themselves off as the Heart Association "but people have called us because they didn't have the card."

Suckers don't reach

Charity fraud and mismanagement have gone largely unchecked, although there are a few early signs that needed reforms may be on the way. In Florida, for example, state legislators are drafting a bill to make point-of-solicitation disclosure mandatory for all fund-raising organizations. A U.S. House of Representatives oversight subcommittee may consider legislation forcing charities to give their IRS financial statements to the public upon demand. Another subcommittee will ask the GAO to study how the IRS handles those public documents. Momentum for change just might be as strong as the efforts by charities to remain free of regulation.

As it is, the current freedom from regulation allows charities to operate like someone on an open-ended expense account: they have little incentive to spend the money wisely. To the IRS and many state lawmakers it does not matter whether a charity spends 35 percent or 95 percent of the money it raises on its own administration.

The absence of strong disclosure laws can only hurt the charities themselves, and the unfortunate and disadvantaged they represent. The more people wonder if they are being taken for suckers each time they reach for their checkbooks, the less likely they are to reach at all. ■

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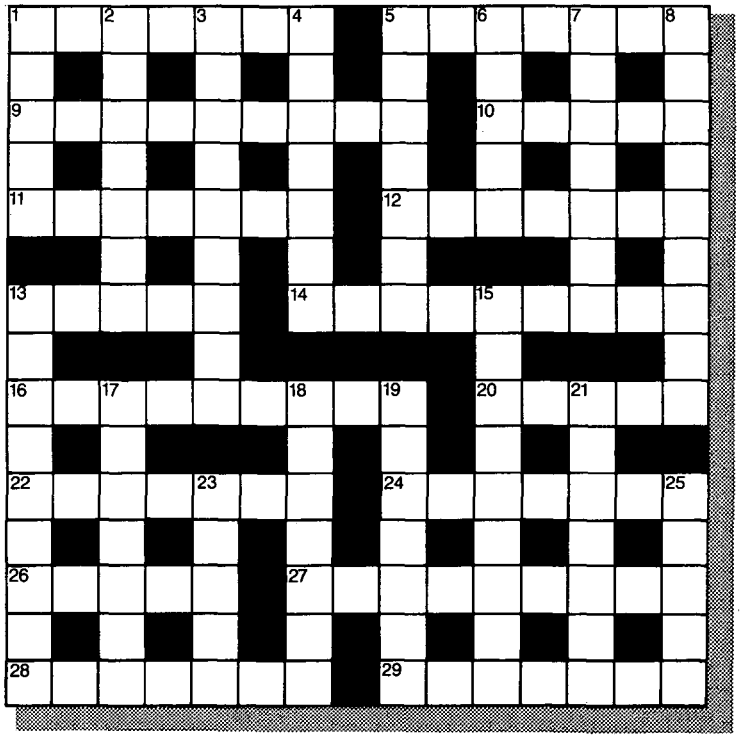
POLITICAL PUZZLE

by John Barclay

The numbers indicate the number of letters and words, e.g., (2, 3) means a two-letter word followed by a three-letter word. Groups of letters, e.g., USA, are treated as one word.



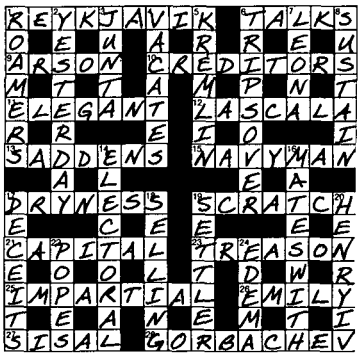
ACROSS

1. Abadan native in an air crash. (7)
5. Toe gash is Reagan irritation. (7)
9. Gaza fish is young one. (9)
10. Jerk taking nothing from tower before end of jump. (5)
11. Warm greeting could be cream. (7)
12. Struggling eagle in descent. (7)
13. A chit served as a letter. (5)
14. Visitors find lawman in the streets. (9)
16. Means of escape for unusually safe flirt. (9)
20. Peculiar ad men selected. (5)
22. Receiving tent gig allotment. (7)
24. P.S. Money made specially famous persons. (7)
26. Fish could have been 1909 headline? (5)
27. Get out of taxi erect somehow. (9)
28. Arranged for fake White House funding. (4, 3)
29. Reagan favorites unpacked cartons. (7)

DOWN

1. Uses one bad point in controversy. (5)
2. Circus performer law includes wild pig. (5)
3. Representative to Claiborne, for example. (9)
4. Carpenters sometimes constructed linear sulfur. (7)
5. Egg Lahr cooked for persistent bargainer. (7)
6. Struck for better clothing? (3, 2)
7. Mean, short street fad. (7)
8. Aired view about Rex's speed. (9)
13. Creature disrupted trail goal. (9)
15. Nothing happening! Tom back in around about noon. (9)
17. Horse part stored in buffet lockers. (7)
18. Last resort clothing? (3, 4)
19. Doubter pickets inconsistently. (7)
21. Spring festival in London? (7)
23. Brief start in faint romance. (5)
25. Pests around Capitol TV site. (5)

Answers to last month's puzzle:



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by Gregg Easterbrook

SACK WEINBERGER, BANKRUPT GENERAL DYNAMICS, AND OTHER PROCUREMENT REFORMS

Was that really former Defense Undersecretary David Packard standing in the Rose Garden last July, handing Ronald Reagan a blue-ribbon report blasting the way the Pentagon procures weapons? Was that really Reagan grinning away as he accepted?

It was. With White House pomp Ronald Reagan consecrated defense reform views his own administration was decrying as misinformed and irresponsible a few years ago. Given the ritual of presidential commission reports—their purpose usually to appear hard hitting but in fact celebrate the status quo, a Kabuki adhered to exquisitely by the recent Rogers Commission—people may have been tempted to write Packard off. But in this instance there may actually be significance to a presidential commission report.

First, Packard's work presents specific recommendations rather than the standard windy exortations for "a new national debate," and so on. Most of those recommendations were right on the beam. It also comes at a time when the number of books, reports, congressional studies, and of course real-life examples concerning military ineptitude is building to a critical mass. Even bureaucracies as vast as the Pentagon do eventually respond to the sheer weight of paper heaped on them, especially when a report like this, embossed with the seal of a president, is thrown on top of the pile.

The Packard report, and the grudging accep-

Gregg Easterbrook is a contributing editor of Newsweek.

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From 1982 to 1985, General Dynamics was twice suspended from government business, saw several former executives indicted for fraud, and even admitted billing the government for kennel fees. But by 1986, General Dynamics had won a 12 percent increase in government business.

tance of military reform ideas currently taking place, creates an ideal political opportunity to make crucial, fundamental changes in the American defense establishment—the kind of reform which, someday, will redound much to the credit of the party which backs it. If Reagan isn't willing to reach for history in his final two years and do for the Pentagon what he did for the tax code, then perhaps the Democrats, now holding the Senate again, will embrace defense reform as a party-wide goal. With that in mind it becomes useful to take a close look at just what Packard recommended—and what new avenues of reform thinking, unmentioned by Packard, should be considered.

Extra-strength spending

Packard proposed many perceptive reforms, some straight out of the cheap hawk's handbook, reorganizing the Joint Chiefs of Staff being one of them.

Previously, the JCS chairman has been strictly a figurehead. The JCS reorganization, enacted recently by Congress, gives the chairman, Admiral William Crowe, a degree of true authority over the military as a whole, creates a vice-chief who supposedly will concentrate on interservice harmony, and also grants some autonomy to U.S. regional commanders.

A key Packard Report recommendation is that the Pentagon buy more parts and supplies from commercial outfits instead of designing custom "mil-spec" hardware. This would save billions while speeding procurement. It is also expected to be resisted by the supplycrats with the full splendor of their collective inertial mass.

Time and again the military spends millions developing supplies only marginally different from commercial products which are already available and cheaper to boot. After the $7,600 coffee pot percolated into the news, General Lawrence Skantze, head of the Air Force Systems Command, issued a paper defending its selection over similar, cheaper systems sold commercially. The Air Force amphora, Skantze declared, was no mere Mr. Coffee, but an amazing, technologically advanced super-urn capable of withstanding 40 times the force of gravity. The Russians have nothing on this coffee pot! If the $7,600 pot ever endures 40 g's it will be useful mainly for brewing crash investigators a hot cup of java as they scrape the remains of the rest of the airplane off the ground.

Supposedly, the high cost of mil-spec hardware is justified by added performance, but usually this is about as smart a buy as the "extra strength" painkillers which contain a 50 percent higher dose at twice the price. As is shown by the frequency with which small entrepreneurial companies beat global conglomerates to the market with new products, money is not the prime mover in product development. Competitive tensions—and the knowledge that results will directly affect one's job security and earnings—can be worth more than money. Anyone who has compared a mil-spec flashlight to a Magna-Lite, the leading commercial heavy-duty flashlight, knows this.

Sam Nunn, the likely new Senate Armed Services Committee Chairman, is thought to favor another Packard recommendation: enactment of two-year budget cycles. Under the present system, procurement strategy vacillates on an almost daily basis, as multiple subcommittees get several shots per year at fussing with the numbers. Two-year cycles will permit more efficient industrial planning while reducing the temptation for Congress to tinker with decisions it has "made." Chronic procurement mood swings not only tie up the House and Senate with redundant debate, they embolden military leaders into thinking legislators can be taken lightly because Congress never means what it says anyway.

Almost everybody, including Nunn, agrees with Packard that Congress has to stop "micromanaging" the Pentagon; let's see how well Nunn can set an example by restraining his own committee. In recent years Congress has barraged the services with the kind of paperwork which only

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hardens their committee mindset. In 1970, Congress requested 36 formal reports from the Department of Defense; in 1986 the figure exceeded 600. Anyone who has worked in a big organization knows that while the content of a formal report is usually mush—compromise language frapped by department after department until it says as little as possible—composition can be an enormous drain on time, crowding out productive endeavors. Congress in turn seldom does anything with formal Pentagon responses except pile them on the scrap heap of history. Most are requested so that a subcommittee chairman can declare that he has taken bold, decisive action on an issue he is actually trying to dodge. A handful of serious investigations per year—accompanied by testimony under oath, where military officials would get into real trouble if they didn't provide answers—would be far healthier for the system than thousands of pages of pro-forma fluff.

The report called for abolishing DSARCs (the Pentagon's Defense Systems Acquisition Review Councils). This showed an admirable willingness to face the music, since Packard himself created DSARCs in the early 1970s when he was undersecretary of defense. DSARCs were designed to nip bad procurement ideas in the bud. But after Packard left the Defense Department, DSARCs were nimbly taken over by the supplycrats and rigged in such a way that no program was ever too expensive or impractical to be funded. Even the Divad gun wafted through its DSARC like a concerto on a spring breeze.

DSARCs worked like this. Early in the life of a weapons concept, a big meeting would be held. Service secretaries, high ranking political-appointees and other luminaries would crowd into a conference room to be shown dazzling animations in which an awesome manifestation of technology slices and dices through the entire Red Army. Let's call it the Goldfinch wheat-seeking missile, designed to destroy subsidized Russian grain. One or two token squids from the Pentagon's internal self-criticism shops such as Planning, Analysis, and Evaluation would be given the floor to raise objections to the idea. Then the DSARC would be asked to vote on whether basic research into the Goldfinch concept should go ahead. Since no one is opposed to research, the vote would always be aye.

Another DSARC would not meet until Goldfinch was well along in development and had acquired a constituency. Those assembled would be shown more astounding animations, then told that although in its only actual firing Goldfinch had inadvertently attacked its own maintenance crew, computer simulations indicated the system could be made utterly flawless at an unspecified later date. This time the DSARC would be asked to vote on whether Goldfinch "program milestones" were being met. Usually the milestones were written by the hierarchy building the weapon, and consisted of items like whether certain tests had been *held*, as opposed to successful. The vote would again always be aye. At this stage the DSARC often would endorse initial purchases of long-lead production items—tantamount to approving full production.

A final DSARC would not be conducted until Goldfinch ribbon-cutting ceremonies had been scheduled and contractor lobbyists had finished working all the relevant congressional subcommittees. This panel would be informed that, ahem, the Goldfinch has turned out to cost 17 times more than estimated, and will explode spontaneously if the relative humidity exceeds 10 percent. But Goldfinch is the sole thing standing between us and a Soviet invasion. Gentlemen, the choice is yours.

The evident flaw in this process is that at no point did DSARCs weigh *alternatives* to the proposals before them, or consider what mix of forces is best given needs, threats, and budget realities. Each finding was reached in a vacuum: each moment of judgment scripted to occur when resistance to interest-group pressure was low. This decision-making cycle, which has dominated U.S. procurement for the last decade, inspired a saying among defense contractors—"Too soon to tell, too late to change." The DSARC sequence also helped the Pentagon sell weapons to Congress as all-or-nothing choices, with votes portrayed "for" or "against" defense.

The Packard-designed replacement, called a Joint Requirements and Management Board, will in theory weigh alternatives and take overall military performance ("joint requirements") into account. Two new officials, the procurement "czar" and the JCS vice-chief, are slated to be this board's primary members. Though there is potential for bureaucratic hocus-pocus in any organizational scheme, at least now there are two officials high in the procurement "loop" whose assignment is to speak for national objectives: in the DSARC system, no one had that warrant.

Make Weinberger pay

The Packard report was wanting in several areas. For one, wording was toned down before publication to avoid giving offense to Defense

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Secretary Caspar Weinberger. The final draft reads as though Pentagon management problems materialized out of hyperspace, no one in charge having the slightest warning. Now how can it be that procurement is seriously flawed, as the commission concluded, and yet the Secretary of Defense bears no responsibility? Weinberger's legacy is that he has presided over six years of the most crippling military waste in American history, waste so flagrant his own president appointed a commission to investigate. Many top NASA officials should have been fired in the wake of the Rogers report; as, logically, Weinberger should have been fired in the wake of Packard. Why was this obvious conclusion not stated? Because, had the report contained any language pressuring Reagan to sack Weinberger, the Packard crew would not have gotten the Rose Garden treatment.

A bigger problem with the commission's work is the possibility that the procurement czar, its best publicized recommendation, may add to Pentagon paralysis.

The report noted that individual service acquisition branches (the Air Force Systems Command, Army Materiel Command and so on) have powerful stakes in self-enlargement; Packard recommended their staffs be cut by 10 percent. (Zero action on that so far.) Presently 165,000 people are directly employed by the Pentagon for research, development and logistics; many thousands more work for aerospace corporations at government expense. Honest contractors are driven crazy by layer after layer of review generated by these functionaries, none of which amounts to much but all of which requires perpetual meetings and paperwork. The more layers that exist, the more likely the final product will be goldplated. Solution: add yet another layer, an undersecretary for acquisition. If a procurement czar is to be added, several layers of Rasputins should be deleted.

Should weapons testing end up under the czar's suzerainty, an issue in dispute at this writing, the new undersecretary will have the same old built-in impetus to expand his empire, cover up test results, and stonewall. It's a menacing omen that the new czar post is the one Packard recommendation Weinberger was quick to embrace: since it was the only one which enlarges the defense bureaucracy. Weinberger nominated as czar yet another Bechtel executive, Richard Godwin, whose primary qualification is that he can be counted on never to rock the boat.

What recommendations might be added to the Packard list?

Let someone fail

U.S. military leaders frequently claim that the only thing the Russians understand is strength. Yet they conduct their dealings with contractors from a kneeling position. There will never be true reform in defense procurement until a major contractor is allowed to fail. Detroit didn't wake up until it almost went under. Aerospace won't either.

Procurement officers complain that they are "captives" of industry—that ultimately it is contractors (the sellers), not the Pentagon (the customer), that hold the cards. Can anyone imagine General Motors pleading that it was the captive of Goodyear? This attitude prevails because the Pentagon brooks it to prevail. As long as business executives observe that every contractor that cheats is patted on the head and told "there there, don't cry," they will continue to take advantage of the system. When they see a major contractor punished in a way which hurts, they will change.

That example should have been General Dynamics. From 1982 to 1985, G.D. was twice suspended from government business; saw several of its former executives, including former NASA Administrator James Beggs, indicted for fraud (can it be coincidence that during the period when omens forewarning of the Challenger tragedy were being ignored, the NASA chief was preoccupied with saving his own skin?); saw two other former top executives leave the country to escape prosecution; saw a top current executive, George Sawyer, tried for conflict of interest; saw the Defense Department Inspector General recommend that several G.D. executives, including CEO David Lewis, be debarred; saw it revealed that a member of the company's board of directors took part in a bribery of Illinois state legislators; was fined $676,000 for bribing Admiral Hyman Rickover; admitted to billing the government for kennel fees, an executive barbershop, $351-per-night hotel suites for Lewis and at least $105,000 for Lewis to take personal trips in a private jet. (In congressional testimony General Dynamics officials spoke of these billings as though they represented a sudden, inexplicable lapse of judgment on Lewis's part. In fact, David Lewis has made something of an avocation of pouring other people's money down the drain. As an executive at McDonnell Douglas, Lewis employed a company helicopter for commuting. Later, when General Dynamics offered him its top post, he insisted that the company

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relocate its headquarters from New York to his hometown of St. Louis. Anyone who thinks it makes financial sense for an entire company to come to him should be kept far, far away from the U.S. Treasury.)

But by 1986 General Dynamics had won a 12 percent increase in total government business, recorded a third straight year of record profits, and led all contractors in new Pentagon awards. General Dynamics had thumbed its nose at the public and strolled away whistling a merry tune. One day after Weinberger's office announced the second suspension of General Dynamics, the Air Force postponed an important round of contract awards for the Advanced Tactical Fighter—this done so that G.D. might get its foot back in the door after the suspension expired. Any self-respecting cabinet secretary would have been outraged that his subordinates were so brazenly undercutting him. Unless, of course, he had no intention of punishing the contractor all along.

Meanwhile, Lockheed was recently accused of $281 million in inflated charges; McDonnell Douglas, of $130 million in overcharges, including billing to weapons contracts chairman Sanford McDonnell's travel expenses while making appearances as president of the Boy Scouts of America. Perhaps "Boy Scout," which among Pentagon contractors was code for the occasional squares who actually obeyed procurement rules, will now acquire new meaning. Through the last five years Rockwell International, General Electric, Litton Industries, and even N. W. Ayer, the Army's advertising firm (whose internal slogan is apparently "Take All That You Can Take") have admitted to forms of false charges or kickbacks on Pentagon work. The fraud at Litton industries has been occurring on a regular basis since 1975. Just as he did against G.D., Weinberger took swift, decisive action: Litton was suspended from receiving new Pentagon business, precisely one day after being awarded $221 million in new Pentagon business.

Nine of the top ten defense contractors are at this writing under federal investigation for billing fraud. Though a number of minor firms have been debarred from defense contracting in recent years, Rockwell, G.E., Litton, McDonnell Douglas, Ford, General Dynamics, Lockheed, TRW and other major corporations embroiled in serious procurement infractions continue to enjoy increases in government-guaranteed profits. Does this even resemble market discipline?

Apologists for the recurrent gelatinous response to contractor chiseling maintain the Pentagon cannot allow an aerospace company to go bankrupt because the defense industrial base would be reduced. This is nonsense. When companies go bankrupt their assets do not disappear. Had General Dynamics received the permanent disbarment it tried so valiantly to earn, the valuable parts of the company's capital base—for example the Pomona, California, complex which builds small missiles—would have been sold off, for operation by new and, one hopes, better management. Only the inefficient parts of the company, and the managers responsible for the mess, would have suffered. This is how the market disciplines slackers, and it's an extremely effective sanction.

The Packard Commission went out of its way to recommend that crooked contractors not be disbarred from further business, but instead simply given a stern tut-tutting, then more billions. This was the report's worst failing.

Put someone in jail

Just as frequent empty threats about billing crackdowns only serve to assure contractors that they can get away with murder, the fact that the individuals responsible for procurement frauds don't go to jail—or even get drummed out of the defense industry—assures executives they will never personally pay the price.

An important step forward was taken last month when one of the middle managers responsible for the Litton fraud was sentenced to hard time. Nobody at the top has been touched, however. People at the top of the procurement pyramid have the strangest ability to walk away unscathed.

Consider the case of George Sawyer, an assistant Navy secretary, who in 1983 went directly from supervising submarine contract awards to employment as a vice president of submarine contractor General Dynamics. "Former Navy Official Cleared in Conflict Case," a *Washington Post* headline announced at the conclusion of Sawyer's trial last December. Whew!

As these things go in the American legal system, Sawyer was charged not with working both sides of the fence, but with failing to disclose that he was working both sides of the fence. Facts undisputed by Sawyer: in March 1983, he flew to General Dynamics headquarters in St. Louis to talk with senior company executives about employment. Later he flew to New York and Chicago for further meetings with G.D. officials. (Sawyer's lawyer called these visits "dating.") On May 5, 1983, Sawyer signed an order ending the lengthy Trident cost overrun dispute, which might

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have cost General Dynamics billions. On May 20, 1983, Sawyer declared he intended to jump to G.D.

Justice Department prosecutors charged Sawyer with one count of not reporting job discussions (required of senior-level federal managers) and one count of not reporting a gratuity to a government employee, the gratuity being his plane fare to St. Louis. To the first charge Sawyer's attorney argued there had been no job discussion under the letter of the law, because exact details like title were not discussed. (Nod nod, wink wink.) To the second charge he argued it was perfectly normal for companies to pay expenses of a "job interview." Now you're thinking like a lawyer!

Prosecutors apparently erred by placing Navy Secretary John Lehman on the stand to confirm a minor fact. Lehman had a strong self-interest in not having his former right hand convicted of being in a contractor's pocket. He used the opportunity to make a rousing speech about how Sawyer was a fine public servant who had "revolutionized" procurement with a new get-tough accounting system designed to crack down on contractors. "I don't think I ever met anyone with more integrity than George Sawyer," Lehman declared, perhaps disclosing more than he intended.

The Lehman pitch is thought to have swayed the jury. Yet something about it ought to have struck listeners as peculiar. If Sawyer is, indeed, a straight arrow, why would a major contractor be so anxious to obtain the services of this tireless cost-cutting crusader? Because hiring Sawyer gets him out of the business of applying honest scrutiny to General Dynamics contracts. If on the other hand Sawyer is less than straight, he's the ideal person to advise G.D. on how to beat his own "revolutionary" system.

Inaction against executives who bilk taxpayers mirrors the current trend against accountability in the U.S. military itself. After the Marine barracks were bombed in Beirut, no senior Marine officer was disciplined; Marine Commandant P.X. Kelley, who had personally inspected the ineffectual fortifications, remains commandant today. No senior officer responsible for the 1980 Iran raid bungling was disciplined. There has been more accountability at the Kremlin over Chernobyl than at the top of the U.S. military.

Bust contractor monopolies

The Lockheed Corporation builds for the Department of Defense what is by all accounts the world's most cost-effective military transport plane, the C130. Lockheed also builds the world's most woefully wasteful transport, the C5. Ford Aerospace builds one of the world's most cost-effective antiaircraft weapons, the Sidewinder missile. It also built the silliest antiaircraft device ever, the Divad gun.

What's the secret here? The effective procurement takes place in market environments. Several companies build planes similar to the C130, leaving Lockheed aware that the Pentagon could always switch; two separate contractors (Ford and Raytheon) build Sidewinder, competing against each other for job lots. The C5 and Divad, in contrast, were both acquired sole-source.

More than anything else, modern defense procurement needs to find ways to simulate market forces.

Obviously true "market" tests for weapons—whether they perform in combat—are not desirable. The free market can be imitated, though, by increased use of split-source purchasing. No sole-source or 'negotiated' price can ever be trusted, since even if the negotiators are totally honorable, what is there to compare the price to? Soviet economic planners have tremendous trouble setting prices without a market to guide them; anybody would.

In split-source arrangements like Sidewinder, two contractors make the same item. They bid against each other for each new contract lot. The winner gets 55 to 65 percent of the total; the loser receives the balance and stays in business, so that it will be around when the next bid comes up. This arrangement creates something at least similar to a market-set price. Split sourcing also gives contractors an incentive to look for innovations that will cut costs after they've won the business. Lack of incentives to cut costs once production has begun may be the single most profligate flaw in the current system.

Year after year real costs of weapons go up—even as manufacturing experience and the fabled "learning curve" ought to be driving costs down, as they almost always do, commodity prices being equal, in the commercial marketplace. During the Reagan Administration, production rates for the M1 Abrams and M2 Bradley have been accelerated, yet costs for both have increased rather than decreased. According to the Congressional Budget Office, the Reagan Pentagon has spent 150 percent more for armored vehicles than Carter did, but gotten only 30 percent more of them. Reagan has spent 90 percent more for missiles, but gotten only six percent more missiles; spent 75 percent more for aircraft, but

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INTELLECTUALS AND RELIGION

Recently *The New York Times Magazine* carried an article on the "return to religion" among intellectuals. From Harvard to Berkeley, among both professors and students, and amid inquisitive people generally, there is an undeniable renewal of interest in the questions traditional religion raises and seeks to answer. This interest is largely a result of the failures of secular substitutes for religion (such as rationalism, narcissism, technological utopianism, aestheticism, and extremist political ideologies) to give abidingly satisfying answers to the truly significant puzzles in life: goodness, suffering, love, death, and the meaning of it all.

By no means, however, does this religious reawakening entail falling into the suffocating arms of a Rev. Moon or a Jerry Falwell, or embracing the ersatz gods of dog-eat-dog individualism, consumerism, or America First, which we see celebrated all around us these days. Nor does the religious renaissance imply a retreat from working for peace and justice. Rather, there is an awareness that, in the words of Jean Bethke Elshtain, religious commitment "can help further social reform," and that religion can supply the ethical bedrock upon which to make political commitments which are far more solid than those based on passing ideologies and enthusiasms. Nor does the new openness to religion signify a hostility to science, but rather an appreciation of the limits of science and the dangers of pseudo-scientific messianisms.

The New York Times Magazine article discussed the NEW OXFORD REVIEW as part of this "return to religion," and rightly so. We at the NEW OXFORD REVIEW are spearheading today's intellectual fascination with what Daniel Bell terms "the sacred." We are particularly interested in exploring religious commitments which result in progressive social consequences, as exemplified by such giants as Dorothy Day, Bishop Tutu, Dietrich Bonhoeffer, Lech Walesa, Martin Luther King Jr., Cesar Chavez, and Archbishop Romero. And we probe the literary riches offered by such greats as Ignazio Silone, Graham Greene, Thomas Merton, W.H. Auden, Flannery O'Connor, and Walker Percy.

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gotten only nine percent more. Some of these price increases reflect improved quality. But manufacturers in the commercial marketplace commonly improve quality while decreasing price; and this is true of heavy-industrial products, not just electronics. The cost of automobiles, for example, has dropped slightly in real dollars over the last five years, though the base price now typically includes defrosters, radial tires, fuel injectors, FM radios, corrosion-resistant paint, and other refinements.

The legendary example of split sourcing comes from the 1970s. Pentagon supplycrats predicted that rounds for the cannon on the A10 antitank aircraft would cost about $200 each. The contract was split-sourced between Honeywell and Aerojet General; the shells came in costing about $14 each.

The Air Force, whose "fly before buy" was the most important procurement innovation of the last decade, has taken the lead in this new method for holding contractors' feet to the fire. Two years ago it revoked Pratt & Whitney's monopoly over the engine used on F15 and F16 fighters, giving slightly more than half of the business to General Electric. Since then, performance of the new engine version has improved, costs have been stable, and Pratt & Whitney, notorious for sluggish response to technical snafus, has become warranty conscious.

Recently split sourcing has been extended to or put in the works for the Amraam, Sparrow, Standard, and Tomahawk missiles; the F18 fighter's radar; the Navstar satellite network, and several other contracts. The F18 itself may be split-sourced. The specter of a privately developed Northrop F20 fighter effectively split-sourced the General Dynamics F16, to which the F20 is similar. After Northrop started offering F20s at a lower price than F16s, General Dynamics made the most amazing and astonishing discovery—that it could sell F16s cheaper, too.

Ships represent the greatest split sourcing challenge, being more like construction projects than manufacturing. The Navy has been trying to entice another contractor to bid against lovable General Dynamics on Trident submarines; currently G.D. owns the sole shipyard which solicits Trident contracts. Through the Reagan years the Navy has talked a great deal about market simulation, appointing a "competition advocate general" with two-star rank and his own theme music, the Navy Competition March. What it has accomplished is less clear. Lehman until recently boasted widely that "every naval aircraft today costs less than it did four years ago." Then a report from the Pentagon's own Inspector General labeled this fiction.

Credit for progress toward split sourcing should be divided equally between the Pentagon and Congress: the Competition in Contracts Act, passed in 1985, mandates annual increases in split sourcing, but Weinberger was moving in this direction anyway, before Congress acted. Can it work on a widespread basis? During World War II, nine companies built the Sherman tank. Most contractors object bitterly to split sourcing—a sure sign it is a good idea.

Simulating a free market in defense procurement would allow us to:

Fire the auditors

Is there any private business that audits its suppliers? No, and any one that did would be playing a losing game, as the Pentagon plays.

Federal auditors are bound to lose the battle of wits with defense contractors if only because they work after the fact—months or years after the money in question has been spent. The most they can achieve is an occasional recouping of past waste, not the far more important objective of preventing waste from happening. Meanwhile, responding to the featherbedded supplycrat hierarchy, contractors grind out paperwork much faster than auditors could possibly assay it. The Defense Contract Audits Agency currently has a $70 billion backlog of invoices awaiting review.

There are two reasons why audits are ineffective: one procedural, one conceptual. The procedural flaw is that they are conducted by civil servants, who have a vested interest in not blowing the whistle. As John Eisendrath has explained in these pages["Watching the Watchdogs," July/August, 1986], federal auditors can be fired only if their sponsoring agency's budget is reduced and "slots" are eliminated. Thus an auditor who averts his eyes from waste will ensure that money keeps flowing to his provider, while one who does his job well puts his career in jeopardy. Government auditing only works when carried out by an independent office like the GAO, whose security is not tied to the wealth of the agency being audited. This is one problem well understood by advocates of "public choice," the school of political economics led by recent Nobel Prize winner James Buchanan. Rather than agency-sponsored auditing shops like the DCAA, public choice thinkers have proposed that the federal government create a "predator agency" whose annual budget is calculated based on a percentage of the waste it uncovers in other

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Stealth bombers, Weinberger said, would cost $277 million each, in 1981 dollars. Tried to buy anything in 1981 dollars lately? The real Stealth price is $333 million.

government departments.

The conceptual and more telling objection to auditing is that it shouldn't exist in the first place. Its deterrent value is marginal, since contractors observe that even those caught rarely pay meaningful consequences. (Litton admitted to $6.3 million in false billings over ten years, and incurred a $15-million fine—discounting to present value, the company roughly broke even on its crime.) The bookkeeping value is illusionary. James Beggs was indicted on charges that he shifted overhead from one defense contract into another. What difference does it make under which account costs are billed? All that matters is how much we pay, and what we get—the same that matters in the market.

Under the present procurement system there's nothing wrong with building a weapon that is a dud, and could cause U.S. soldiers to die needlessly; or with charging too much, which in effect steals from the public. But better enter those figures on the proper invoice!

Whenever a new procurement scandal breaks, Congress responds by calling for more auditors—instead of changing the system that caused the scandal in the first place. Under the present system, hiring more auditors creates the lulling sense that something is "being done" about waste. It isn't; an added administrative expense is merely being tacked on. Market mechanisms offer less cumbersome and more reliable checks against contractor abuses. Ensuring that market mechanisms are being allowed to operate—checking, for instance, to see if two or more companies on a multi-source contract aren't secretly colluding to raise prices—is the kind of specialized auditing the government needs. For that, the DCAA should be replaced by an independent, predator-style agency auditing a small percentage of contracts at random. Meanwhile, to reduce the overall need for auditing, the Pentagon should begin to:

Buy weapons like consumers

The system of auditing exists because, in many cases, the Pentagon arrives at contractor payments by negotiating expenses and overhead in addition to direct manufacturing costs; the figure treated as the cost of the weapon is actually an agglutination of numerous negotiated billings.

Defense executives jumped up in arms when an obscure provision slipped into a piece of 1985 legislation limiting them to billing the prevailing civil service per diem rate when they travel on Pentagon contracts. That rate ($112 per day in Washington) is not enough to wine and dine in the style to which they have become accustomed. But hold on here. Does Ricoh bill per diem to Raytheon when its salesmen come to sell copiers? Does Mobil bill United Airlines for fuel production overhead? The very notion of picking up a supplier's expenses runs counter to market logic, inviting abuse. In the free enterprise system companies pay their own expenses.

Weapons should simply be sold for a price, no billing of anything but the bottom line. Contractors howl when this proposal is made, declaiming that procurement is nothing like the market—the customer is whimsical, product development takes many years, huge tooling costs are involved, and so on. Aren't customers whimsical in the real market too? Isn't the risk there greater? (As evidenced by the fact that commercial firms sometimes go out of business.) Haven't companies like Xerox and IBM been able to shepherd complex technology into the market without subsidies?

One reason weapons development takes eons compared to development of consumer products (nearly 15 years current average for major systems) is that the expense-billing system is structured to reward foot-dragging, whereas the market is structured to reward results.

The system of endless negotiations will be hard to eradicate in part because the military likes its very cumbersomeness. In peacetime there exists a need to "house" soldiers. Contract busywork, so deathly time-consuming, fits this bill nicely. The Air Force Systems Command has 34 generals, 10,524 other officers, and 16,000 enlisted personnel. What does it do? Sets requirements for purchasing. It doesn't design, test, train, or operate—just supervises. In fiscal 1987 the Air Force plans to purchase 298 aircraft. This works out to 89 supervisory procurement personnel per aircraft.

The related Air Force Logistics Command oversees purchases of bulk items. Fred Hiatt of *The Washington Post* has reported that the

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Logistics Command on average takes 100 days to execute the paperwork needed to order a spare part. This is approximately 99 days longer than it takes the private sector. The Logistics Command buys only one-third of its supplies through price competition; the rest through the laborious sequence of negotiation, pass-along, and audit. Hiatt reported that when one typical item, a wing element for the F4 fighter, was competitively bid for the first time, its price fell from $2,066 to $194.

Since maintenance of a large standing army entails finding something for thousands of enlisted personnel and officers to do in peacetime, inevitably, no matter how well managed the military is, some assignments will be make-work. But better to have the boys sitting around playing cards than dreaming up ways to inflate the cost of weapons.

Use real numbers

Many is the time that a hopeless gullible journalist or congressional staffer has looked at the amount the Pentagon requests for a particular weapon, divided it by the number to be obtained, and thought he had arrived at the price. Oh naif! Oh tyke! The Air Force, for example, says the F15 fighter costs $25 million. The fiscal 1987 defense budget requests $1.9 billion to acquire 48 F15s—$39.5 million per plane. Plus $378 million ($7.9 million per plane) for initial spares, training, research, and construction related to F15 operation.

Procurement officers nearly flip their wigs when anyone suggests that the amount paid divided by the number obtained sounds an awful lot like the price. This is not the case, they will say, because every budget includes money for long-lead items which will not actually be used until future years; and for "one-time expenses" like development of new components for existing models. Then have expenditures for lead items from previous years been repaid? Well, not exactly. Aren't "one-time expenses" common in all forms of business, and generally thought of as part of the price? At this point the officer will summon one of his aides and say, "Why don't we take a look at computer simulations of the new space-based Goldfinch III in action. . . ."

In early 1985, when spare parts horror stories dominated the news, word leaked that the Pentagon would start breaking down its budget by subcontracts, not weapons. Supposedly this would aid Congress in monitoring spare parts purchasing. In fact, since major weapons projects involve dozens or hundreds of subcontracts, the real objective was to render the procurement budget an incomprehensible maze of line items.

The maze gambit was quietly shelved when Congress discerned its true purpose. Number fudging, however, went on to reach a new high in the spring of 1986. Confronted with repeated congressional demands for cost information on the Stealth bomber, whose price, like the price of the F19 stealth fighter, the Air Force had classified—after all, if the Soviets knew the price, they'd copy it!—Weinberger announced some numbers. Stealth bombers, he said, would cost $277 million each, in 1981 dollars. Tried to buy anything with 1981 dollars lately? Know any businesses that compute executive bonuses in 1981 dollars? Two-hundred seventy-seven million in 1981 works out to $333 million today, the real Stealth price.

Of course there are numerous ways to cost out the purchase of a complex machine like a bomber. One might look strictly at the airplane itself; or add in replacements for parts which will wear out in normal use; or add in weapons to be carried and fuel to be used; or add in special repair and training equipment to be built. One might look only at the first year of operation, or at several years, and so on.

These methods go by names like "flyaway cost," "program cost," "life cycle cost," "then-year cost," and others. Every costing method is somewhat arbitrary, and none flawless. Most businesses face cost complexities too, and arrive at the best estimate by dividing what they get into what they spend. This method, though imperfect like all the others, is at least comprehensible. The Pentagon should use it.

Breed new carrots

A common analysis of the Pentagon quagmire holds that since peacetime officers cannot advance their careers by winning on the field of honor, they channel their energies into the battle of the budget—with victory based on who spends the most money, not who spends money most wisely. Instead of trying to counteract perverse bureaucratic carrots, why not replace them with sensible incentives? However intractable bureaucracies seem, they do eventually respond to direction.

In the present system procurement officers view the world as if their task were to acquire a car, and their choice were between a Ferrari and a Toyota. All would choose the Ferrari, because it offers the highest performance. When you protest to Air Force procurement officers that the

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MEMO OF THE MONTH

TVA 64 (08-2-86)

UNITED STATES GOVERNMENT

Memorandum TENNESSEE VALLEY AUTHORITY

TO : All Bull Run Employees

FROM : Doyle W. Beavers, Plant Manager, Bull Run Fossil Plant

DATE : September 15, 1986

SUBJECT: MISCONDUCT - BULL RUN FOSSIL PLANT

We will soon be hiring a large number of hourly employees to begin a major outage. I would like to remind all employees, including hourlies, that horseplay, fighting, and practical jokes are prohibited while on the job. This includes such actions as pouring or throwing water on other employees, setting off firecrackers, or any unwanted physical contact such as "goosing." This rule was established to prevent injuries and to help create the safe and harmonious work environment that is needed and expected. Horseplay is not only dangerous but causes tension and strife and has no justification in the workplace. It can result in disciplinary action being taken against the offender.

I urge all of you to consider the effects of horseplay or other misconduct on your fellow employees and the possible consequences to yourselves. Instances of horseplay or practical jokes should be reported to your supervisor immediately so appropriate action can be taken to prevent recurrences.

Doyle W. Beavers

Doyle W. Beavers

JSW:JCE

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F15 is too expensive to be practical, the canned response is, "The Soviet tactical air arm outnumbers ours three to one. If your son has to go up against three Soviet pilots, wouldn't you want him in the very best airplane money can buy?" As the question is phrased, the answer is obvious. But the logic is circular—the reason Soviet fighters outnumber ours is that we concentrate so much money on a handful of expensive planes. The actual choice is going up against Soviet fighters as a lone F15; or as one of two F16s; or as one of three F20s.

When you have the same conversation with field officers below the full colonel rank—the ones whose lives would actually be on the line in a fight—most, though not all, say they would prefer more planes to more gizmos. Aerial combat experience, including experience with current front line fighters in the Middle East, suggests that while electronic superiority confers valuable advantages, your son would be better protected by wingmen than by additional increments of technology.

So suppose the bureaucratic tasking were redefined as: Get yourself back and forth to work every day, paying the penalty if your car breaks down or if you are caught speeding. Then some (not all) would switch to the Toyota. Finally suppose the task were phrased: Take $100,000, buy a car that gets you back and forth to work, and use the remaining money for other priorities. The third assignment corresponds to what the U.S. military realistically faces, given that it must prepare for a wide range of uncertainties while spending a large but not unlimited sum of money.

A policy of promoting those officers who bring projects in under budget would make a good starting point for changing career incentives. The "use it or lose it" mentality—the assumption that money saved by cost-cutting will only be funneled to one's rivals in another branch or service—could also be done away with by allowing each procurement branch to retain one-half of any appropriated money it saved.

But as long as the Army, Navy, and Air Force have separate procurement hierarchies wrestling each other for funds, it will never be possible to weigh U.S. defense needs with strategic objectivity. An important step toward breaking this bottleneck would be:

Purple procurement

In the Pentagon, "purple suit" means a position with no service affiliation. Why not reorganize procurement into a purple organization which answers to the new, theoretically more decisive Joint Chiefs?

The color of their uniforms, of course, isn't important; what's crucial is that those entering the purple career path receive future promotions from the joint chiefs, not their former services. Otherwise, they would only feign allegiance to overall goals while privately knowing their personal prospects still depend on how much money they funnel to the service branch whence they came. Obviously, a corp of non-service officers would gradually develop a new set of bureaucratic concerns. Yet at least if their formal assignment were to make the military strong overall—as opposed to making one service strong at the expense of another, which is the present motivational structure—there would be some systemic incentive to put aside parochial interests.

Allowing procurement branches to pursue private service agendas isn't always bad. Sometimes it spawns healthy competition. The Navy, for instance, abandoned its push for carrier-based supersonic nuclear bombers and embraced the less expensive, more effective ballistic missile submarine, only because the Air Force was about to get all the nuclear missile money. But when this competition is unchecked by leadership or reason, serious distortions result.

Currently, for example, there is a need for a new generation of close support aircraft. The Air Force is taking no chances that it gets stuck with another plane designed for supporting Army troops at the front like the low-cost, low-glamor, A10 the service was forced to swallow in the mid-1970s. Instead the Air Force is building a $50 million ground-attack version of the F15, and converting some F16s for ground attack by adding something called Lantirn, a sensor system which, at $5 million, costs the same as an entire A10 aircraft. These new mutant fighters will be useful mainly for "interdiction," or attacks behind enemy lines—a mission the Air Force prefers to front-line support, mainly because it can be carried out without having to cooperate with the Army.

This is not only an example of the procurement system's tendency to solve problems by the most expensive means. There is a more troubling aspect. The F15 and F16, designed as fighters, have thin skins. In fighter planes shaving off pounds is essential, because the fighter survives by using speed and maneuverability to avoid hits. In contrast the A10 and the comparable Soviet Su25 have armor-plated skins, internal fire-control apparatus, and other combat survival features—the design assumption being that when

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operating just over the heads of enemy troops, minor hits are inevitable. Bringing very expensive thin-skinned aircraft down to the treetops where small arms fire can destroy them is almost as crazy as the Army's interservice-rivalry based fantasy that helicopters can defy Soviet antiaircraft batteries.

Here is an instance where a purple procurement system could both save money and improve military effectiveness. Rather than spend $50 million for F15Es or about $25 million for Lantirn-equipped F16s, more A10s could be built; or a new armored attack plane could be designed; or existing A7 attack planes, which are durable but have outdated engines, could be retrofitted with the new engines and electronics for about $8 million each. Purple procurement could also take on the AH64 Apache antitank helicopter. Rather than spend $9 million each for Apaches which have evolved into missile launching rails 50 feet off the ground, the Army could move the launch rails down 50 feet and fire the Apache's missile from jeeps. The money saved could be used to build more missiles than now planned (on the wild, wild, wild chance one may miss) and for utility helicopters, which have been vindicated in actual use.

Cool off Congress

Military leaders have a legitimate beef when they complain that Congress changes its mind too often. They also are right to say that defense must be a less partisan issue—although they contribute to the fractured-flickers atmosphere by jumping to condemn even constructive criticism as "against defense." In the area of partisanship, congressmen must heal themselves.

Liberal Democrats, for example, deserve most of the blame for the Stealth bomber. During the Carter Administration they spoke in hushed tones about Stealth as a deadly future alternative to the B1, which Democrats wanted to cancel. This was a political ruse, designed to make the party sound anti-Pentagon and ultra-macho simultaneously. Now Stealth has taken on a life of its own, and we are close to being stuck with it. Not only do its performance characteristics sound like an aerospace engineer's practical joke, Stealth is scheduled to go directly into production without operational test flights—which guarantees a turkey.

Meanwhile the B1B has become, though not the cost-effective bomber the country needs, a bargain compared to Stealth. One hundred B1Bs are being completed at a cost which works out to $280 million apiece; now that production start-up costs have been amortized, additional B1Bs could be built for about $195 million each, compared to at least $333 million for each Stealth. The B1B has already been modified to include many of Stealth's radar-absorbing features. (Although, in the process, the aircraft has gained 80,000 pounds—more than its original payload figure—and lost some aerodynamic cleanliness. As a result, it is believed the B1B cannot climb to cruising altitude when fully loaded with weapons and fuel.)

But in exchange for reviving the B1 project in 1981, Democrats extracted from the Reagan Administration something close to a blood oath that only 100 B1Bs would be funded. Building 100 B1Bs, followed by the planned 132 Stealths, means both planes will be manufactured at hopelessly inefficient production rates. And where will the U.S. bomber force, badly in need of modernization, be after this huge expense? Stealths will only be practical for nuclear retaliatory strikes, something which can be accomplished much more cheaply by missiles. The B1B may make a reasonable conventional bomber, but 100 is such a small number by military standards as to be insignificant in anything beyond Grenada-class operations. Adjusted for payload, sortie rates, and other factors, the 100 B1Bs will be able to deliver approximately 2 percent of the conventional bomb tonnage U.S. forces could deliver during World War II.

Censor the press

Pentagon reporting has improved in recent years, but in two areas journalists still fall flat. One is spending too much time, as it were, on toilet seats. In a $300 billion enterprise some bloopers are inevitable: considering the total amount being spent, occasional idiotic small purchases aren't all that scandalous. It's the procurement programs where all the paperwork is going smoothly but the result is wrong—programs like Lantirn—that are the real scandal.

Yet overpriced hammers and coffee pots consistently draw greater ink than far more significant institutional predicaments—because they seem indisputably wrong and require no further explanation, unlike flawed weapons or strategies, which may take many pages to lay out.

The second troublesome journalistic failing is that when reporters do examine complex programs, they tend to flail at all flaws whether or not significant; and whether or not one claimed fault is consistent with another. Last year, for in-

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stance, wide press attention was given to a GAO report saying that neither F16s nor F20s (the Air Force's candidates) should be acquired for the new continental interceptor program, because neither has the radar range of F14s and F15s. Reading several major-paper stories on this subject and watching big-TV newscasts, I caught no mention of the fact that F14s and F15s also cost more than twice as much as the planes being considered, meaning at most half as many could be purchased; and in continental defense large numbers will be more important, since the U.S. has a huge border area. (Assuming any of these aircraft will be effective at intercepting cruise missiles, an open question.)

Another example: journalists have turned somersaults about the fact that the M2 Bradley Infantry Fighting Vehicle cannot withstand a direct hit from a modern anti-tank rocket. But the real hooter about the Bradley, rarely explained, is that it is a "tank supplement" which costs as much as a tank. Tactical experience using fighting vehicles is limited, but what there is suggests that on a modern battlefield, you're either a tank or you're not: only a main battle tank such as an M1 Abrams has sufficient armor to absorb a well-aimed kinetic projectile, and even main battle tanks can't survive hits from each other. The notion of sending $1.5-million Bradleys onto a battlefield to assist $1.7-million M1s, instead of sending more M1s, is curious indeed. But it can't be explained in a single sentence.

Follow the money

Caspar Weinberger spent the first term of the Reagan Administration denying that there was anything, even the slightest little thing, wrong with procurement. Had Weinberger admitted the obvious up front—that the system was in trouble, and he needed help fixing it—he would have won respect and sympathy. Instead he has spent well over a trillion dollars for. . .what?

Spending is up, way up. Adjusted for inflation, Reagan has spent 50 percent more per year on defense than Carter did. In fiscal 1985 the military budget was larger in real dollars than in the peak years of the Vietnam and Korean wars. But actual amounts of hardware acquired have scarcely increased, and in some cases fallen. Some new weapons acquired under Reagan are better than their antecedents, but few are improved to the degree that their costs have increased.

And on the critical subject of readiness, little has changed. James Fallows has written in *The Atlantic*, "In 1980, after the 'decade of neglect,' the Marines averaged 24.2 flying hours per crew per month. In 1984 they averaged 23.7 hours. For Army aviators the average was 18.8 hours in 1980 and 16.4 hours in 1984. The average mission capable rating for Army, Air Force, and Marine equipment was 79 percent in 1980 and 81 percent in 1984. The most the Pentagon can claim is that mission capable rates are 'steady or slightly increasing' after years of re-arming America."

There's a simple answer to where the money went. In 1984, major aerospace contractors earned an average 27-percent return on sales to the military, more than double the national average of 11-percent return on assets for mercial manufacturing. FMC Corporation, which builds the Bradley, earned a 54 percent return. McDonnell Douglas, the leading defense contractor, drew 98 percent of its profit from military sales, which constituted only 69 percent of its business. Boeing got 94 percent of its profit from the military, though defense is less than half its business. Many (not all) contractor figures are comparable.

And these are income figures, referring to what's left after the contractors themselves have lived like kings. Defense contractors pay mid-level managers more than Weinberger makes; plus millions to top management and perks, perks, perks. Further millions go to recently retired procurement officers for stressless 'consulting' work; to congressmen, via PAC contributions and honoraria; to the press, via corporate image advertising; even, indirectly, to some active Pentagon officials. When five Boeing executives left to join Weinberger's Defense Department, the company issued $485,000 in special severance payments for them—never dreaming in its wildest imagination that this could in any way be viewed as improper, of course. All this money keeps the skids greased and makes sure as many people as possible are willing to overlook the meager end result.

The military procurement system was not designed to behave the way it does. That's why the situation is so resistant to reform. In government affairs, predicaments which come about through institutional self-interest or self-deceit can be far trickier to cure than mistakes based on simple error of judgment. Self-deceptions aren't discovered until they have taken root throughout the system, with various actors having acquired a stake in preservation of the status quo. Adding on new actors whose job it is to combat the existing mentality may or may not help. A better idea is to change the existing mentality, through true revolutionary reform. ■

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the CASE FOR THE $435 HAMMER

"You want how much for a beer?!" asks the patron of a bar in the cartoon strip "Motley's Crew."

"Four bucks," the bartender replies.

Says the patron: "That must be the same outfit that sells hammers to the Pentagon."

Claw hammers, to be exact. The kind you buy at your local hardware store for between $7 and $10; billed to the Pentagon for $435 a piece. In the three years since the story broke, the $435 hammer has become synonymous with waste in the Department of Defense (DOD). From Beetle Bailey to Walter Mondale, everyone has expressed outrage at this apparent swindle. The hammer contract has been investigated by Congress, discussed during the 1984 presidential debates, and used as Exhibit A by politicians, journalists, and businessmen in their recent calls for military reform.

But here's the rub: the DOD didn't pay $435 for a hammer. It's a good bet we paid too much for it (for reasons related in part to something called the equal allocation method and in part to larger problems in defense procurement). But the Pentagon didn't pay nearly $428 too much.

Hints of a rip-off

In 1981 the Navy decided to offer a sole-source contract to the electronics company that manufactured the flight instrument trainer for the T-34C aircraft. That made the Simulation Systems Division of Gould, Inc., the lone provider of a comprehensive list of more than 400 different parts needed to keep trainers in the field in good repair. In June 1982, the Naval Training Equipment Center (NTEC) at Orlando, Florida, issued the contract. Of the items ordered, some were peculiar to the trainer and would have to be manufactured by Gould; others, known as "buy-and-sell items," could be bought at an ordinary hardware store. Since the Gould plant is located on Long Island, the job of reviewing and negotiating Gould's proposal fell to the Defense Contract Administration Services Management Area (DCASMA) in Garden City, New York.

An outpost of the Defense Logistics Agency, DCASMA Garden City does a variety of tasks for the buying offices of the military. A man whom I shall call Dave Johnson, an administrative contracting officer there, was put in charge of the proposal. In November, his negotiating team brought Gould's price down from $896,011 to $847,000. This came close to the recommended price resulting from reports by an engineer, a price analyst, and a Defense Contract Audit Agency (DCAA) auditor. Johnson submitted his memo of negotiation and a contractual amendment to the Garden City Board of Review, whose five members saw nothing wrong with it. Then, after Gould had signed the amendment, he too signed it, making it legal and binding. The price it showed for the claw hammer was $435.

Why did no one protest? Because the equal allocation formula makes line item prices meaningless. Under this system the line item price does not reflect the item's true value. The equal allocation method calculates prices for large numbers of items in a contract by assigning "support" costs such as indirect labor and overhead equally to each item. Take a contract to provide spare parts for a set of radar tracking monitors. Suppose a monitor has 100 parts and support costs amount to a total of $100,000. Using the equal allocation method each part is assigned $1,000 in such costs, even though one item may be a sophisticated circuit card assembly, which re-

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by james fairhall

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quires the attention of high-salaried engineers and managers, and another item may be a plastic knob. Add $1,000 to the direct cost of the part and you get a billing price. This is what the government is billed, though not what the part is really worth—the circuit card being undervalued, the knob being overvalued. The need for billing prices arises because contractors want to be paid up front for items that are shipped earlier than others.

The problem with the equal allocation method is that it's easier for contractors to overstate support costs when negotiating one price for all of these costs in a contract instead of haggling over them for each individual line item. And if the Pentagon doesn't know the real price it is paying for each spare part, it is also difficult for it to determine whether it is spending too much in support costs.

Few people are familiar with the price distortions created by this method. When the chief petty officer in the repair department of a naval air station in Florida saw the unit-price list for the T-34C trainer in 1983, he started asking how anyone in his right mind could have paid $435 for a common hammer. His inquiries led to press stories and investigations by a number of agencies including the Navy Audit Service which, on May 27, reported that the Gould contract contained "excess costs of about $729,000."

These investigations led the Pentagon to announce on July 27 that Gould had overcharged the Navy "hundreds of thousands of dollars" for the hammer and other items under the same contract. Secretary of the Navy John Lehman sent a letter to Gould demanding repayment, and Secretary of Defense Caspar Weinberger gave notice that the DOD had to make "major changes" in its procurement of spare parts.

This would be a heartening example of the kind of internally generated reform the DOD so rarely makes except that the Pentagon was wrong. To begin with, the Navy Audit Service based its findings on Gould's original $1-million price list instead of the $846,000 list negotiated by Dave Johnson. The auditors calculated the "reasonable cost" of the parts to be $271,000 and subtracted it from $1 million to arrive at the $729,000 in excess costs. Even if they had subtracted the "reasonable cost" from the correct negotiated price, however, the audit would still have been wrong. The auditors figured the $271,000 by taking 114 buy-and-sell items—about 25 percent of the line items—and comparing Gould's prices with those of the DOD's own supply system. They found the difference in price to be about 369 percent. So, they calculated that every item in the contract, big or small, complicated or simple, was also overpriced by 369 percent. This approach was so wrong-headed you don't even have to understand the equal allocation method to know the results were off. No $729,000 refund should be made against an $847,000 contract when the contractor, as a DCAA audit shows, had bought almost $300,000 in materials alone.

Even though the Pentagon had flubbed the audit, in August Gould agreed to make a good faith refund of $84,000. Gould Chairman William Ylvisaker knew the audit was flawed, but he wanted to placate Gould's most important customer and put a stop to the bad publicity which was causing a sharp decline in Gould's stock price. This proved to be a mistake. It confirmed the general suspicion of a rip-off, and it seemed to discourage analyses of the root causes of the hammer pricing by reporters. Shortly after Ylvisaker announced he would pay the $84,000, *Newsday* ran an article accompanied by a sidebar entitled "Would You Pay $435 for This?" next to a large photo of a claw hammer. In the sidebar, aerospace writer Tom Incantalupo gave a detailed explanation of the equal allocation method. Four days later *The New York Times* ran a similar article by James Barron in which he devoted five paragraphs to the Gould hammer, and dutifully discussed the DOD's pricing system. But both pieces ended with suggestions that—the complexities of buying spare parts notwithstanding—someone had ripped off the government.

Blackboard jumble

Reacting to the publicity, Congress quickly compounded the Navy auditors' mistake. Leading the way was Iowa Rep. Berkley Bedell. During the first few months of 1984, Bedell called Johnson a number of times to discuss the hammer contract. He also visited the naval air station in Florida where the hammers were being used, and talked with both Navy and Gould officials. Bedell's staff director was dispatched to Garden City to study what went wrong. In spite of being named Small Businessman of the Year in 1964, Bedell had a problem fathoming the equal allocation method. In one long conversation, Johnson explained it in detail. Bedell said that he heard him, but had a mental block on the subject nonetheless.

Regardless of the block, Bedell spent the first part of 1984 working very hard at introducing spare parts amendments and educating his colleagues as to the outrageousness of parts over-

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Rep. Bedell was praised for having taken the lead in spare parts rip-offs. There was only one problem: he didn't know what he was talking about.

charges, the Gould contract being his main example. His efforts won him praise from the press, including a June 13, *New York Times* article entitled "The Provocative Saga of the $400 Hammer." An accompanying photo depicted him with a claw hammer in his right hand. The article by Steven V. Roberts recounted the tale of Bedell's introduction to the hammer contract ("I almost fell out of my chair") and his purchase for $92.44 of 21 tools billed in the contract for $10,168.56. The article began and ended with observations to the effect that, thanks to the hammer, people were finally starting to pay attention to the soft-spoken ten-year congressional veteran and former president of the Spirit Lake Kiwanis Club.

Other members of Congress applauded Bedell's efforts. Rep. Barbara Boxer of California, for instance, praised Bedell for having "taken the lead in this whole issue of spare-parts rip-offs." There was only one problem: Bedell didn't understand the hammer contract.

The government simply didn't pay $10,000 for $92 worth of tools. It was billed that amount, but that was merely a bookkeeping procedure to create billing prices so that Gould could be paid as it shipped line items at different times during the contract. This didn't stop Bedell. The hammer was his ticket out of obscurity. He had the Navy Audit Service findings, and he had the smoking gun—Gould's $84,000 repayment. For almost a year after he first learned of the Navy's audit Bedell—in congressional debates, in speeches, and in the press—reiterated its findings. On May 2, 1985 *The New York Times* ran a front-page story reporting Bedell's accusations that the $84,000 obtained from Gould "was only 11 percent of the refund the Navy auditors recommended."

Bedell's persistence paid off, though not as he had hoped. The *Times* article prompted the Navy to call together everyone involved with the Gould contract. At a meeting on May 17 at Cameron Station, Virginia, a representative of the Office of Naval Acquisition Support revealed that they had retracted the Navy Audit Service finding of a $729,000 overcharge. (No explanation was given for the reversal, perhaps acknowledging that the less said about this blunder the better.) Even the issue of fraud disappeared. An agent from the Defense Criminal Investigative Service, who grasped the equal allocation method better than FBI and GAO auditors had done in an earlier investigation, used a blackboard to persuade an official in the U.S. Attorney's office in New York that no charges should be filed against Gould for billing the government $435 for a hammer.

All that remains is to settle a DCAA audit prompted by DOD officials hoping to find justification for getting more than $84,000 back from Gould. This audit focused on whether Gould had been guilty of defective pricing—i.e., if it had violated the Truth in Negotiating Act by withholding information that would have reduced the overall contract price. The finding: Gould overcharged the government not $729,000 or $84,000, but $92,310.

Most likely this dispute will be settled for much less than $92,310 or it will end up before the Armed Services Board of Contract Appeals. Either way, it has nothing to do with the price of the hammer. In fact, nobody will ever know what the hammer really cost, since Gould's accounting system is not set up to track individual line items. Certainly, though, it did not cost anywhere near $435. And just as certainly, the government will have spent well over $84,000 on investigating and explaining the hammer contract by the time it is finally put to bed.

The outrage over the $435 hammer could have resulted in some procurement reforms, but that hardly happened. In 1984 the Pentagon did abolish the equal allocation method. But while the $435 hammer resulted from this method, other spare parts scandals were caused by more fundamental procurement problems. The toilet seats, ashtrays, and $7,600 coffee pots resulted from gold-plated specifications and the use of costly middlemen. The Pentagon did launch a potentially valuable drive to eliminate these middlemen from the spare parts business. In general, however, the response has been what John Kester, former special assistant to the secretary of defense, describes as Washington's prescription for all procurement ills— "more laws, more rules, more people checking on the checkers."

DCASMA Garden City, for example, issued in April 1985 an impressive "Procedure for Evalua-

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tion of Spare Parts" consisting of nine single-spaced pages plus a checklist and a chart. Its main innovation was to place at the center of an already cumbersome process a GS-11—a retired oil company executive with no DOD experience—to monitor all spare parts contracts.

More important, many of the major flaws in the DOD procurement process remain untouched. For example, if the Pentagon did pay too much for the hammer, a key reason is that it gave Gould a sole source contract. In addition, there is still not enough emphasis on buying in bulk to reduce unit costs. The Navy Ships Parts Control Center (NSPCC), to select one buying office, issues orders for a large variety of spare parts with seemingly little regard for the advantages of quantity. An order for 56 circuit card assemblies will be followed six months later—too late to be added to the first production run—by an order for one or two or three of the same item at a relatively astronomical unit price.

This type of institutionalized failure in spare

NUTS, BOLTS, & DEATH

The unofficial motto of the tank company in Japan I was assigned to in 1949 was "on requisition." Among many things on back order was a starter-solenoid for the company's tank retriever. It still hadn't arrived when our company was sent into combat in Korea. The only way the retriever, a kind of armored tow truck, could be started was by being towed itself, and when in the midst of a combat recovery operation it stalled after the driver was shot, the crew couldn't get it going again. My company commander and two of my garrison roommates were killed as they tried to escape—all because of a missing piece of wire that cost about seventy-five cents.

Sadly, that's not just ancient history. In his new book, *The Straw Giant*, long-time defense journalist Arthur Hadley tells of flying on a 20-year-old B-52 bomber with bald tires, a leaking hydraulic system, and a gyro system repaired in flight by a crumpled fruit juice can. Writing in *The New York Times* last July, Adam Yarmolinsky pointed out that the fiscal 1987 Pentagon budget that was prepared in February, when compared with budget plans for fiscal 1987 prepared in 1985, "cuts spare parts purchases for the Air Force by 39 percent; the Navy, 22 percent; the Army, 32 percent."

Certainly there is fat in the operations and maintenance (O&M) budget from which spare parts are purchased. Individual services, for instance, normally refuse to share maintenance facilities, even for identical vehicles. Studies by the Pentagon, Congress, and the General Accounting Office (GAO) show that sharing maintenance facilities can save hundreds of thousands of dollars. Across-the-board cuts in the O&M budget won't solve this problem. They simply create another one: impaired readiness of combat units in the field. Since solenoids, unlike military bases and weapons systems, don't have a constituency, these funds have few champions in Congress. Not surprisingly, House and Senate conferees on the fiscal 1987 defense authorization bill agreed last September to cut an additional $2 billion from O&M, despite acknowledging the fact that such a reduction would hurt combat readiness.

The folly of this approach is, of course, that preparation is the most important thing our armed forces do in peacetime. That's why we keep them around. This is as true today as in the days of George Washington, who once said, "There is nothing so likely to produce peace as to be well prepared to meet the enemy." But training for war is expensive. Fuel to run tanks and airplanes and ships costs lots of money. An aircraft carrier, for instance, costs $500,000 a day out of port. Joint training exercises are even more costly. The "Reforger" exercise of NATO troops in Germany in 1985 cost $115 million. At Fort Bragg, *Los Angeles Times* reporter James Gerstenzang recently found that a training exercise in central Alaska had been cancelled for budgetary reasons. "There are few people in the unit who know how to fight in a winter environment," the commander of the unit told Gerstenzang. Because the company had done no cold-weather exercises in five years, time-consuming training would be required "if we were called upon to deploy to a cold weather region."

Developing marksmanship, whether riflemen, artillerymen, tankers, fighter pilots, or naval gun crews, takes a lot of extraordinarily expensive missiles and ammunition. As *The Washington Post*'s Rick Atkinson and Fred Hiatt recently found, "munitions are so expensive that it is common for even experienced pilots never to have

Harry Summers is the senior military analyst at U.S. News and World Report.

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parts procurement, which illustrates David Packard's recent complaint that "there's been no effective long-range planning in the system," simply does not elicit the interest and outrage that high-priced hammers or toilet seats or coffee pots do. Perhaps this is the greatest pity of the hammer controversy: it has given Congress and the press a nice warm feeling of indignation while distracting them—and the public—from deeper, more complex, less "newsworthy" sources of defense waste. The Pentagon continues to offer sole source contracts, refuses to punish corrupt or inefficient defense contractors, and allows disruptive inter-service rivalry to hinder military planning. [See Gregg Easterbrook's "Sack Weinberger, Bankrupt General Dynamics, and Other Procurement Reforms" on p. 33] We've all taken our cues from "Motley's Crew." As one official at DCASMA Garden City wrote in a memo that reprinted two comic strips dealing with the hammer: "When a subject makes the comic pages, it has become a serious matter indeed." ■

by harry summers

fired some of the most important missiles in the arsenal."

The usual justification for cutting training costs is that to protect modernization we can afford to cut back on readiness. But cut back too far and modernization itself is meaningless. Well-trained soldiers can make up for deficiencies in equipment, but even the most modern and sophisticated weapons systems are just so much useless junk without those with the skill to operate them in the face of the enemy.

It's not as if we don't know better, for the military has gone through this drill before. As the operations officer in the mid-1960s of a mechanized infantry battalion at Fort Hood, I felt I had blood on my hands when the troops under my command—who had spent all their time pulling maintenance on Armored Personnel Carriers—were later sent to Vietnam as rifleman. "Better they were in the National Guard," I told my brigade commander. "At least they'd have had two weeks summer training." It wouldn't have been enough, but it would have been two weeks more than they got at Fort Hood.

Take a letter, General

"Every time we have a budget cut," one Pentagon office worker told me over a decade ago, explaining another way wrong-headed cuts can undermine battlefield effectiveness, "they fire the indians and keep the chiefs because the chiefs are able to protect their jobs. But now they're to the point where the chiefs *are* the indians."

She was absolutely right. Then conducting a study of the duties of majors and lieutenant colonels working on the Army General Staff, I found that almost 70 percent of their time was spent on clerical duties—filing papers, standing in line at the Xerox machines, writing memos in longhand to be fed to the typing pool. What began as an attempt to cut costs ended up with a situation where officers were paid $40,000 a year to perform tasks better performed by an $8,000-a-year Private First Class.

A decade later nothing has changed. Visit the Pentagon today and you will find the halls jammed with majors, lieutenant colonels, and colonels spending the majority of their time as grossly overpaid filing clerks. Just a month after commanding a regiment made up of thousands of men and millions of dollars worth of equipment, complained one Marine colonel recently, he was just another desk clerk.

Moving in the right direction, the Pentagon recently announced that if it had to, it was prepared to eliminate an entire Army division, an entire Navy carrier task force, and stretch out the procurement of 25 major weapons systems. This kind of thinking is long overdue. For too long Defense Department budget-cutters have ignored the ugly effects of cuts in readiness accounts. That price was paid in blood by somebody's son at Bataan and at Kasserine Pass in the opening days of World War II. And too many of my friends paid that same price in the Pusan Perimeter in Korea.

We should not exact that price again. If the budget crisis forces military cuts, then America must also cut back on its commitments to use military force as an instrument of its foreign policy. The nation is better served by openly accepting such an increased risk to its worldwide interests than by surreptitiously returning to the "hollow" military of the 1970s that gave Americans—but not America's enemies, who knew better—the dangerous illusion that we possessed power that in fact we did not really have. ■

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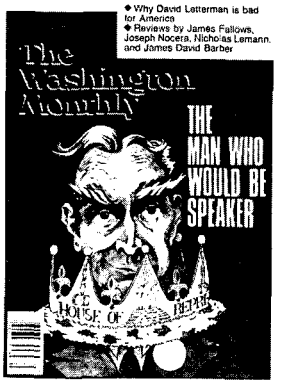

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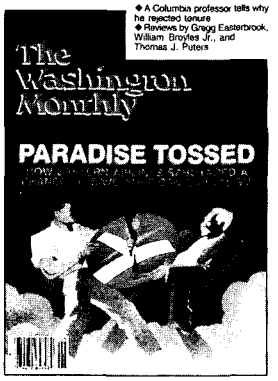

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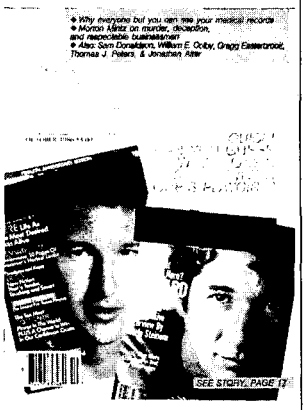

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TIDBITS AND OUTRAGES

THE AUTHOR PLANS A SPANISH-ENGLISH VERSION WITH SUCH PHRASES AS, "I'LL KEEP PUTTING YOUR SILK SUIT IN THE DRYER UNTIL YOU PAY ME MINIMUM WAGE."

A Washington marketing consultant has recently published *Kitchen Spanish*, an English-Spanish phrase book containing "everything you've always wanted to say to your Spanish-speaking domestic, but couldn't," according to a press release announcing it. "The book covers the spectrum from kitchen to childcare and runs the gamut from simple lines like 'please change the sheets,' to the more complex up-to-date lines like 'the child's father will be coming to pick her up at.'. . . [The book] is ideal for every person who has ever come home to find their silk suit in the dryer."

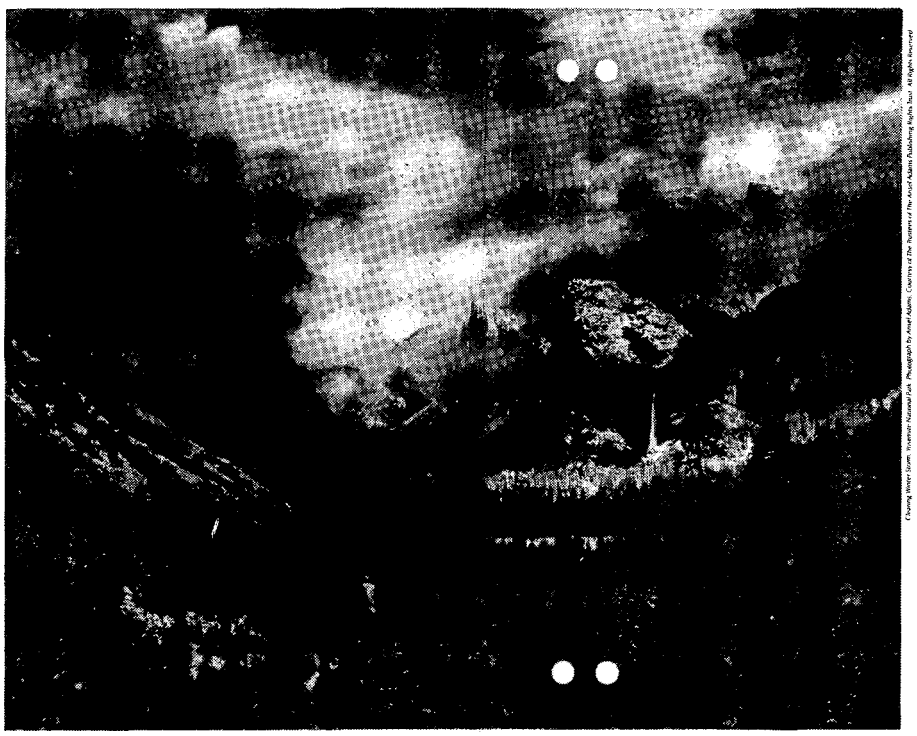
THREE COUGHS FOR FREE TRADE

Responding to U.S. charges that they were engaging in unfair trade practices, Japan has agreed to eliminate cigarette tariffs, a move that could increase American sales there sixfold.

BUT THAT'S ONLY BECAUSE GENERAL ENRILE'S FORCES HAD ALREADY SEIZED THE LOCAL BOWLING ALLEYS

In an article about the dramatic Philippine cabinet meeting following General Juan Ponce Enrile's recent attempted coup, *The Washington Post* reported, "the only one absent besides Enrile was the vice-president and foreign minister, Salvador Laurel, who was playing golf."

ON THE EIGHTH DAY, GOD CREATED THE SIDEWINDER HEAT-SEEKING MISSILE



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Making it in international banking

HOOKERS, JAGUARS, AND LOTS OF STUPID LOANS

by Charles Lane

During the seventies, lending to the Third World wasn't just a job. It was an adventure. Just ask S.C. Gwynne, who worked in the international credit department of Cleveland Trust during the peak of the boom. Before he was 26, he "had been to 25 countries and was one of four bankers managing a $150 million international loan portfolio.... I traveled overseas three to four months a year. In Hong Kong I was met at the airport by a chocolate-brown Rolls Royce, in the Philippines by a red Jaguar, in Saudi Arabia by a stretch Mercedes. I stayed at Claridges while in London, at the Oriental in Bangkok, and at the Meridian in Jeddah. I flew, ate, and drank first class." Lorenzo the Magnificent never had it so good.

Gwynne's funny, often astonishing, tale* of a youth spent lending American money south of the equator adds a much-needed dash of color to what is now the dreary and all-too-familiar story of how bankers led the Third World and the industrialized world alike into the sorry mess we now know as the international debt crisis. Furthermore, his experience as a former insider at Cleveland Trust, a "regional" bank, enables him to explain the perspective of banks other than the big money-center operations that dominate finance in New York, Chicago, and California. The big boys' activities in Latin America and elsewhere are more publicized, but the smaller regional banks' role in the lending boom and the debt crisis was in many ways just as important. Collectively, the regionals constitute a major power bloc; they hold 43 percent of the total foreign debt owed to our banks. (The top 15 banks have the rest.)

Charles Lane is an associate editor at The New Republic.

**Selling Money*. S.C. Gwynne. *Weidenfeld & Nicholson, $16.95.*

"Going global" became imperative for these banks in the seventies because their domestic lending opportunities were limited. Interstate retail banking (mortgages, car loans, etc.) was prohibited by the federal Glass-Steagal Act, and many states limited banks' intrastate retail lending to a single city or country. To expand, regionals increasingly turned to supplying loans to corporate clients, which wasn't restricted. These corporate clients, of course, had customers in the Third World, and the banks soon realized they could help their U.S. clients and themselves by lending to these foreign countries. Although the traumatic debt crisis of the eighties—with its "non-performing loans" and looming threat of default or even bank collapse—has caused a certain amount of amnesia about it, the seventies were also a time when the profits on loans to the Third World were as good as, or in many cases, far greater than those that could be gotten by lending at home.

But since the regionals were new at the game, they didn't have any personnel with international experience. So they turned to wet-behind-the-ears types like Gwynne. When he started at Cleveland Trust in 1977, Gwynne had a history degree, a masters from a writing program, and two years experience as a French teacher. "I did not understand how a bank worked," he reports. Neither Gwynne nor anyone he worked with in the international department knew much about the countries they were lending to. Gywnne got assigned to Latin America because he knew *French*. Yet he, and hundreds of others like him, performed the quotidian lending chores which, summed up over several years, dozens of countries, and hundreds of banks, led the world into the international debt crisis.

Not that Gwynne's superiors at the bank would necessarily have been interested in intimate

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The young ex-banker concludes he was "just a bit player in the perverse, global confidence game."

knowledge of local circumstances. When he wrote appropriately gloomy assessments of "country risk," his superiors altered them to sound more optimistic. Skepticism about shaky Third World economies threatened a very profitable activity. The word was lend, lend, lend. What little information the regionals did have came from the countries' own central banks, who often found it expedient to cook the books, or from the big banks, who themselves were flying blind. "Much of their 'intelligence gathering' was done from the shelter of first-class hotels and expensive restaurants," Gwynne explains.

The extravagance of the bankers' lifestyle was itself dictated by the perverse economics of the lending craze. All the banks were selling the same interchangeable product: money. Everyone was charging about the same interest rate. Therefore, putting on airs was the only method left for distinguishing your bank from the others. Flim-flam was built into the system. Everyone, no matter how little he actually earned at home—and Gwynne never earned more than $20,000 in salary—lived like an expense-account king while calling on prospective clients abroad. It was the only way banks knew to impress potential clients with the importance, wealth, and stability of their institutions. The costs of maintaining loan officers in a princely lifestyle were nothing compared to the typically hefty interest income the banks earned on the loans they made.

And it was great work for a kid, if you could get it. In 1980, Gwynne found himself in Manila, being "met at the airport by a shiny new Mercedes, which also contained a girl. She told me that she and the car were at my disposal during my stay in the Philippines. And there was a plane waiting to take me to Baguio, a fabulous mountain resort in the north." Gwynne thought he was lucky to have found so eager a client; the reality was that he was being hustled. The company supplying Gwynne with all these luscious perks was so grossly mismanaged that it had long since been cut off by big foreign banks that knew its reputation. Cleveland Trust, however, was new in town, and hence naive enough to think itself lucky to have loaned the company $10 million to buy construction equipment from a GM division near Cleveland. Later, when the loan went sour, the bank was faced with collecting from Ferdinand Marcos's government, which had assumed responsibility for the company's debt. The bank never did get it all back. Small wonder that Gwynne concludes he was "just a bit player in a perverse, global confidence game."

You can quibble here and there with the details of Gwynne's indictment of the banks. True, in hindsight it doesn't look too smart for Bank of America, the second largest bank in the U.S., to have loaned $2.5 billion—half of its capital—to Brazil. Gwynne, however, speaks too soon in arguing that "there is absolutely no justification" for placing "the bank's fate in the hands of one unstable, inflation-ridden country." Unstable? President Jose Sarney's fairly progressive, civilian government has just been confirmed in power by an overwhelming victory in state and municipal elections—though it's true that victory was followed by riots over recently announced price hikes. Compared to other Third World borrowers, Brazil used its loans in a relatively productive manner. Its investments have paid off in rapid export-led growth. Thanks to the recent "Cruzado" plan of wage and price controls, inflation has dropped from 225 percent last year to an expected 40 percent next year—not bad at all by Latin standards. Gwynne mocks Brazil's controls on capital flight, claiming they are strict on paper but easy for the well-connected to dodge. In fact, Brazilian citizens have invested just $10 billion outside the country, compared to $53 billion shipped out by Mexico and $30 billion by Venezuelans. Brazil has plenty of problems, and its bank creditors may well have to grant further concessions in order to help the country get over them. But if a string of defaults does someday bring down the Bank of America and other haughty U.S. banks, it probably won't start in

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Brazil.

Basically, though, Gwynne's charges stick. By focusing on the role of the regional banks in the debt crisis, Gwynne helps cast the debate over how to get out of the crisis in a new light. The money center banks aren't particularly eager to lend more to Third World borrowers who have already burned them once. But, thanks largely to cajoling and arm-twisting by Washington, they are willing to back Treasury Secretary James Baker's plan, which would try to come up with $29 billion worth of new lending, $20 billion of it from American banks, and the rest from the World Bank and the Inter-American Development Bank. In exchange for the new credit, countries would have to adopt free-market economic reforms to restore their ability to grow and to repay debt. Presumably, money center banks reason that this plan at least keeps the debt game going and interest flowing to New York. That's better than a more radical alternative that might call into question the very idea that every nickel of debt and interest must be repaid in order to protect U.S. bank profits.

The regionals, too, are being asked to pony up cash for the new loans Baker wants. But from their point of view this means placing their capital at even greater risk for the sake of the money center banks, who stand to lose the most from a default. The regionals' exposure in the Third World is smaller on a per bank basis and is spread out over dozens of countries. Therefore, each regional would lose less than the money center banks if everyone was forced to write off bad loans. Indeed, with possession of nearly half the outstanding loans, but relatively little to lose by writing them off, the likes of Cleveland Trust have a good deal of control over the big banks' fate.

The regionals had already been reducing their exposure in Latin America when the Baker plan came along, and they are leaning increasingly toward a solution like that of Sen. Bill Bradley, which would grant debtor countries $57 billion worth of direct relief in the form of interest rate reductions and principal write-offs. The idea is to let these countries restart their economies and, hence, buy more U.S. exports. This would mean an earnings "hit" for all concerned. But that hit would probably be perfectly bearable for the regionals, and their traditional domestic clients would benefit from being able to export more. S.C. Gwynne and many other Americans wonder if it really would be so terrible if money center profit worries stopped exercising so much influence on American economic policy. ■

THE WASHINGTON MONTHLY

Journalism Award

for October 1986 is presented to

Jerry E. Bishop, Michael Waldhotz, Bowen Northrup
The Wall Street Journal

Once available largely to the rich and the seriously psychotic, psychotherapy has become popular with millions of Americans whose incomes and problems are smaller. Combining good reporting and measured, long overdue skepticism, this four-part series profiles a profession with hazy borders, hard-to-quanitify results, some dubious practitioners and little government regulation.

Steven Prokesch
The New York Times

Reforms meant to hold corporate chiefs accountable—pay-for-performance, outsider-dominated boards—have been the rage for a decade. Yet Prokesch shows that, for the most part, CEOs who preside over badly-run corporations continue successfully to use personal friendships, legal tactics, and a culture of blind loyalty to avoid being fired.

The Monthly Journalism Award is presented each month to the best newspaper, magazine, television, or radio story (or series of stories) on our political system. Nominations for any newspaper, magazine, or radio or television station in the country are welcome. The subject can be government in its federal, state, or municipal manifestation.

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POLITICAL BOOKNOTES

Worldly Power: The Making of The Wall Street Journal. Edward E. Scharff. *Beaufort Books, $18.95.* A *Wall Street Journal* reporter once theorized that it was impossible to write an entertaining book about the *Journal*, simply because it wasn't the kind of place where people threw spitballs, made memorable comments, or did colorful things. Fortunately, this theory is proven false by *Worldly Power*, which not only documents the history of Dow Jones & Co., but also manages to catch the personalities, gossip, newsroom plotting, and backstage bickering that have gone into the making of America's bestselling newspaper.

Much of the story concerns the late Bernard (Barney) Kilgore, who had a vision for a national business newspaper aimed at a middle-brow audience back when the *Journal* was a sleepy publication written for specialty investors in New York and California. Unlike many journalists, Kilgore had an intuitive feel for how far he could push his readership without overloading them with the volume or the complexity of the information. The tight formula he devised for the *Journal*'s front page was so awesomely successful that a later editor told Scharff, "Kilgore had given us a *perfect* thing. We thought, don't tamper with it, don't screw around with the formula." Scharff, an editor at *Institutional Investor*, points out how unconventional Kilgore's ideas were for their time, although we take them for granted today. As late as the 1950s, business in America was mostly a local and regional affair. Most Americans spent their careers in the same town or small area where they were born and raised. Many young journalists, such as Warren Phillips, Dow Jones's current chairman, took jobs at the *Journal* only because they couldn't get hired by "real" newspapers.

Kilgore's good fortune was that Dow Jones was able to stay afloat—thanks largely to its financial news ticker—until reality caught up with his vision. Scharff does a big service by recognizing the role of the late Robert Feemster, the man responsible for the *Journal*'s sales and marketing during its growth years after World War II. Feemster, who died in a 1963 airplane accident, was a pushy Sammy Glick type much disliked by the *Journal*'s editorial staff, but his exceptionable business skill and hustle persuaded skeptical advertisers to support a newspaper that had no home town, no photographs, no sports, and a gray, unchanging front page. According to Scharff, Feemster was also the only Dow Jones executive to openly oppose launching the ill-fated *National Observer*, an editorially superb but financially disastrous weekly that resulted from Kilgore's boredom after the *Journal* had achieved huge success.

Scharff describes the mixed feelings of arrogance and inferiority that mark life as a *Journal* reporter, which I can confirm from my own stint on the *Journal*'s staff in the mid-seventies. On the one hand, there is a sense of practicing the craft of journalism at its best, of writing well-researched and thoughtful stories, and of having one's byline featured as one of only three front-page stories each day. On the other hand, there is a feeling of being on the outs with mainstream journalism, of still being tied to the infernal news ticker and the knowledge that stardom and clout will more likely go to reporters at *The New York Times*, *The Washington Post*, or the news magazines.

Worldly Power would have benefited from a more detailed look at the *Journal*'s current leadership and problems. The newspaper's circulation and advertising figures are flattening, its newsroom is top-heavy with editors, and *The New York Times* is seriously challenging its preeminence in business reporting. The book also has two stylistic flaws. Too many anecdotes include the qualifying word "reportedly," even when the story appears to have been confirmable. And many of the author's opinions are softened by the word "perhaps," as in, "Page-one editor. . .was perhaps the best job in all of newspaperdom." Surely the author could have gone out on a limb on a few of these.

Overall, however, Scharff has done for the *Journal* what Gay Talese's *Kingdom and the Power* did for the *Times*. His book works extremely well as journalism history, as the story of an American institution, and as the biography of a talented iconoclast, Barney Kilgore. For all of his skill as a business journalist, Kilgore never invested in the stock market, had a diffident attitude towards personal wealth, and was suspicious of anyone who seemed overly concerned with getting rich. You wonder what he would have made of the yuppies who today are such numerous and worshipful readers of his newspaper.

—David Graulich

Shadows and Whispers: Power Politics Inside the Kremlin from Brezhnev to Gorbachev. Dusko Doder. *Random House, $19.95.* Among the best of a long line of good *Washington Post* correspondents assigned to the Moscow beat, Doder's instinct for nuance and intrigue suited him admirably for the post during a series of power struggles within the Kremlin hierarchy. From 1981 to 1985, he saw the leadership of the Soviet Union shift from the tired rule of Leonid Brezhnev to the dynamic but short reign of Yuri Andropov, then give way to a last gasp of the old guard under Konstantin Chernenko, and finally revert to Andropov's young protege, Mikhail Gorbachev.

Correspondents in the outside world get their stories through legwork, leaks, interviews, and press conferences; Moscow correspondents figure things out by comparing rumors and clues. By putting together a number of clues—such as Moscow radio canceling a jazz program, then a humor program, and substituting classical music, and all the lights being on in the offices of the Ministry of Defense—Doder concluded that the ailing Andropov had probably

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died and wrote a story to that effect. Andropov was indeed dead, but the *Post* checked out the story in Washington with Undersecretary of State Lawrence Eagleburger, who checked with the American Embassy in Moscow and told the *Post*: "It's bullshit." The *Post* then toned down the story and played it on page 28.

In the waning years of Brezhnev's rule, clues of the maneuverings about the various centers of power—the KGB, the military, the Party, the intelligentsia—were there for perceptive observers to see. A thinly-veiled satire on Brezhnev's lax rule appeared in the Leningrad magazine, *Aurora*. In 1982, after a corruption scandal involving the lover of Brezhnev's daughter, a *Pravda* article contained this sentence: "Children reveal, as if in a mirror, the psychological conditions and convictions that prevail in their families." The KGB and the armed forces in particular were alarmed by the drift in policy and the growing economic weakness under Brezhnev. But, as Doder notes, a coup—as in the Khrushchev affair—would have been so traumatic that the various elites preferred to wait for the death of a leader.

When Andropov succeeded Brezhnev, it was with the support of the military and the KGB rather than the Party. For one thing, the years of rich living and corruption had made too many Party officials vulnerable to the ire of the ascetic Andropov; for another, the Party ideologues were afraid that the reforms Andropov stood for would take on a life of their own and get out of control.

Curiously, Doder found in the ascension of this former KGB chief a certain similarity to the election of John F. Kennedy, in that it created an electric feeling that change was in the air, that things were on the move again. In his 15-month tenure, Andropov broke the old guard's control of the Politburo, forcefully set in motion social and economic changes, and put new, young people in positions of power to make sure that the changes would go forward. Andropov's initiatives—interrupted temporarily after his death by the brief rule of party hack Chernenko—enabled his protege, Gorbachev, to hit the ground running.

How fast and to what effect Gorbachev can run is part of the larger question of the degree to which Soviet society is amenable to change. There is no doubt that Gorbachev is set upon drastically reinvigorating the ailing Soviet economy. But, aside from party ideologues, the public itself exerts a strong and sometimes overriding influence. To accomplish Gorbachev's purpose would involve eliminating the massive government subsidies that keep a lid on food prices and keep rents extremely low; the monthly rent for a one-bedroom apartment, Doder notes, is about equivalent to the price of a bottle of vodka. To make that kind of change in the Soviet pricing system would stir up resentments that the Soviet leadership is wary of. The desire of the general population for economic reform is exceeded only by its unwillingness to bear the short-term costs of such reform—a tendency not unique to the Soviet people.

Doder is an astute observer of the dynamics of Soviet society. If he can be faulted at all it is for being absorbed in the machinations of Kremlin power politics to the point of having tunnel vision. He is probably justified in his impatience with his Washington editors when they distract him with requests for "reaction" to the latest U.S. arms proposal; he recognizes that as part of a rather meaningless propaganda war. What is harder to understand is why Doder scarcely mentions the Afghanistan war, which paralleled his watch, and offers no insight into how the various factions stood on an event which certainly must have been a significant source of argument, friction, and politicking in the Soviet inner circles.

—Leonard Reed

The Reckoning. David Halberstam. *William Morrow & Co., $19.95*. David Halberstam has produced the best and most important book ever written on the auto industry, but making cars is not its subject. Rather it is about the decline of American wealth and productive capability, the apparent inability of the richest nation the world has ever seen to maintain the ethic and attitudes that created its strength, and about the unexpected rise of a totally defeated and starving near-feudal Japan to a position of supreme economic power in the same 40 years.

There is a distressing inverse symmetry to Halberstam's history: the American standard of living declined as financially-oriented bureaucrats took over power in Detroit, while the growth of Japanese industrial superiority was fueled by a single-minded desire to do a better job and a religious following of American teachings.

In choosing the paradigmatic auto industry to tell his story, Halberstam singles out the force—sheer productive capacity—that allowed the U.S. and its allies to win WWII, and that now has led Japan to world economic mastery. His in-depth studies of the number-two companies in each country, Ford and Nissan, allow us to see exactly how, and above all why, the balance of productive power shifted so sharply.

The auto industry isn't about cars; it's about money and men, and Halberstam gives us the men so clearly and truthfully that it is difficult to believe that he has not been a Detroit—or Tokyo—insider all his life.

Some of his characters are larger than life: Henry Ford, the cramped and mean-spirited puritan who put the world on wheels, changed society for all time, destroyed his only son, Edsel, and had the war not intervened, in his senility would have destroyed his own company; Henry Ford II, savior of his grandfather's company, and finally very nearly as destructive as the old man; Yukata Katayama, architect of Nissan's success in America, punished and ignored because he failed to play company politics the right way; William Gorham, the American inventor who created the first Nissan car almost single-handedly in 1933.

Others amaze by having acted in ways seemingly inconsistent with

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their characters: Gen. Douglas MacArthur, the generous victor reforming Japanese society to make it liberal and prosperous; Joseph Dodge, the parsimonious Detroit banker who in three months established the tenor of the Japanese economy for the next 40 years; timorous, fumbling Philip Caldwell, who rose through the Ford bureaucracy to become chairman by not making decisions, yet who decided to allow Ford to build the radical Taurus and Sable.

There are the Whiz Kids, the best and brightest of whom was the inhumanly perfect Robert McNamara, who knew all the numbers and none of the essence of whatever he undertook, who demanded false reports to fit his view of the world and got them. Bodycount Bob of Vietnam destroyed Ford's productive capacity—the strength that had made the company—before he switched to Washington and the business of war.

And there is Lee Iaccoca, ambitious, driven, able, and filled with rancor over real and fancied slights to his ethnic background. Halberstam has performed the amazing feat of making Iaccoca a far more appealing character than he is in his autobiography, yet his outbursts of temper, his bullying, and his rule by fear are carefully chronicled.

We see the industry chew up some of the best men in the business, the ones who knew and loved cars, not money and power. Don Frey of Ford, the man who really invented the Mustang, was forced out of Ford, as was Harold Sperlich, the current president of Chrysler, who was solid, highly competent and, here at least, a little naive. He tried desperately to do his job as well as he could at Ford, only to be tossed aside because he annoyed autocratic Henry Ford II with his championing of the sort of product Ford needed but did not want.

The Reckoning is as easy to read as a summer novel; but it is far better. Halberstam is a meticulous interviewer, and obviously has a knack for drawing out the most reticent participants. I asked a number of people involved in American parts of the drama whether they found his version plausible; they exclaimed they were surprised he could be so right without having been there.

—Robert Cumberford

Reel Power: The Struggle for Influence and Success in the New Hollywood. Mark Litwak. *William Morrow, $18.95.* For all the ink that is spilled chronicling Hollywood, very little gives readers a sense of how the movie business operates on the nuts and bolts level. Even *Indecent Exposure*, probably the best business book about Hollywood, is really more about the pathology of corporate boardrooms. Serious business journalists tend to avoid Hollywood, probably because they figure it's too weird to offer lessons for the rest of us. That's too bad, because what Hollywood is all about—the pursuit of creativity—is also something that other industries, in less extravagant ways, aim for. How that pursuit is corrupted or goes awry in Hollywood can help us understand how creative impulses ought to be nurtured in other businesses.

Litwak's book, funded in part by Ralph Nader's Center for the Study of Responsive Law, helps fill the gap. Litwak has taken a thoughtful look at the movie business, without getting sucked in by the glamor of Tinseltown on the one hand or the power politicking of corporate executives on the other.

The movie business would seem to represent the entrepreneurial ideal. The studio system is today largely extinct, having been replaced by a proliferation of independent production companies. But as a result, much of what was good about the old, oligopolistic ways has been lost. Back when screenwriters were studio employees, one former Columbia contract writer told Litwak, "We would have lunch together and talk about our mutual problems. If you ran into a script problem you would have somebody to go and bullshit with." Most writers today work for themselves at home, without the benefit of such mutual support. Meanwhile, the executives who remain at the studios, now reduced largely to making deals to market and distribute films made by outsiders, don't seem as passionate about movies as the unschooled immigrant-moguls of the past. To grab their attention, producers need "high-concept" ideas that can be expressed in a sentence, or, even better, a "jingle"—a story that can be reduced to a single phrase.

Litwak unfortunately relies too much on quotes, rather than analysis, to prove his points. And although he offers some criticisms of Hollywood unions (which parody the wage demands and work rules of the rest of American labor), he does not hit them as hard as he should. As a writer, he shows special solidarity with oppressed screenwriters, who get paid far more than writers in any other field. Describing one screenwriter's triumph over the Hollywood system, Litwak quotes him without irony as saying, "I drive a Mercedes, I feel good about myself."

But while Litwak's Naderite sensibility makes him reluctant to ridicule Hollywood's working class pretensions, it also leads him to discover that Steven Spielberg's film "The Goonies" received $100,000 from Nabisco in exchange for depicting a young boy and his gruesome friend sharing a Baby Ruth.

—Timothy Noah

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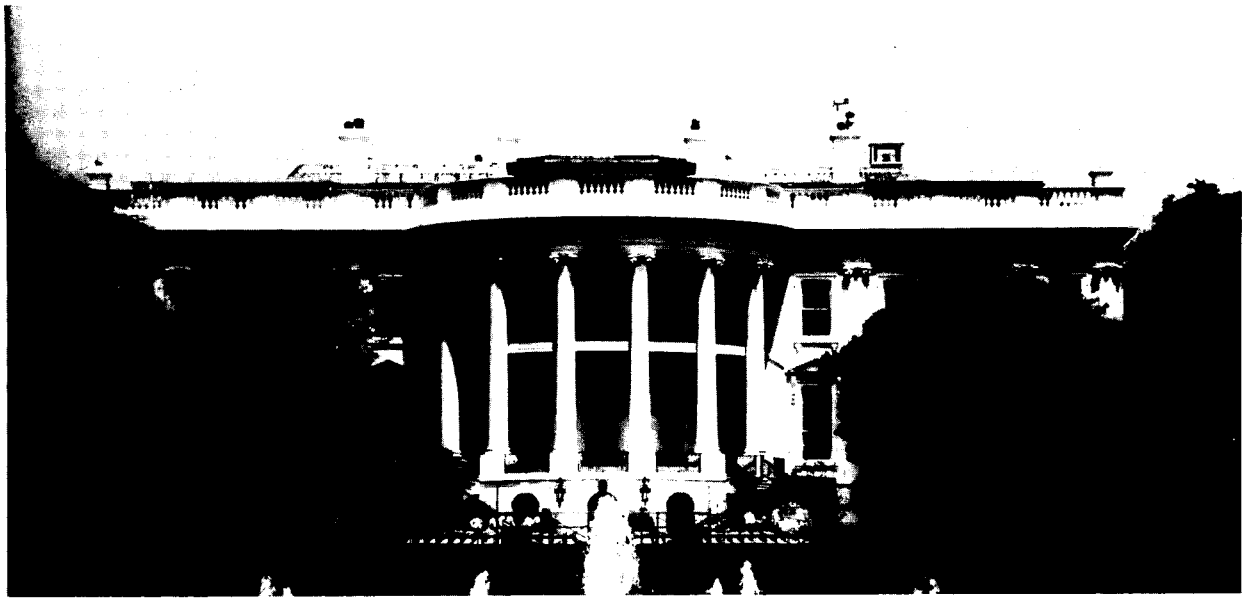

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